



Session 2.5

Informal employment and the classification of workers in the informal economy



What we will cover in this session

- The definition of informal employment
 - Operational definition
 - Definition criteria
- How to arrive at informal employment based on the definition criteria
- Measuring the number of workers in the informal economy
 - Identifying particular groups of workers in the informal economy
- Principles to arrive at a national definition of the informal economy



International definition of informal employment

Guidelines concerning a statistical definition of informal employment (17th ICLS, 2003)

- 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, Members of Producers' Cooperatives (MPCs)

Contributing family workers

Employees

Other unpaid workers

The type of economic unit

Only relevant for employers, own account workers and MPCs

Formal economic unit

Informal economic unit

Households

The employment relationship

Only relevant for employees

Formal employment relationship

Subject to national labour legislation, income taxation, social protection or entitled to employment benefits, in law or in practice

Informal employment relationship

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



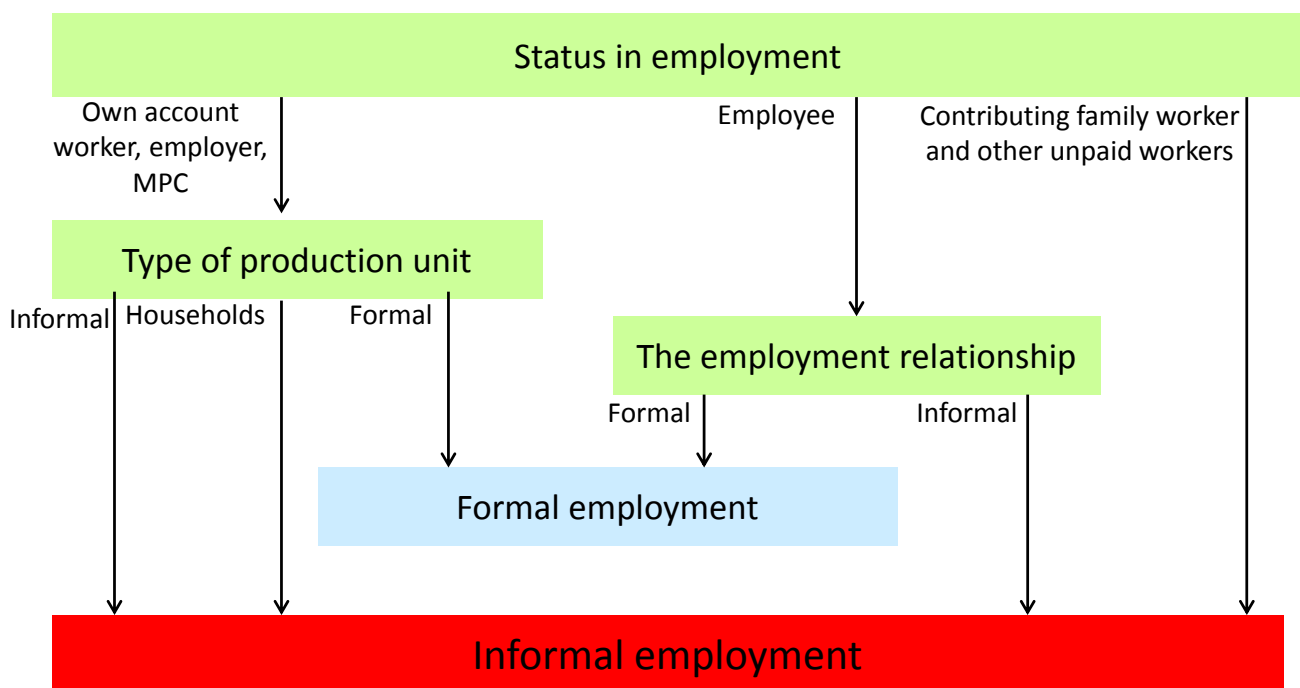
A combination of three criteria

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 (§5)

Four criteria mentioned:

- The employee is not protected by national labour legislation in that job
- The employee does not pay income tax from earnings in that job
- The employee does not contribute to a social security schemes related to that job
- The employee is not entitled to certain employment benefits

These two criteria are inter-related

The set of criteria are to be determined by countries in accordance with national circumstances and data availability



Department of Statistics
International Labour Office

7

The meaning of the “not protected under the national labour legislation” criterion

- Labour legislation determines the minimum socially acceptable conditions under which employees are allowed to work
 - Minimum earnings / maximum working time / working schedules / minimum age to work / right to weekly and annual rest / health and safety / protection against dismissal / right of association / etc.
 - Different in each country
- In many countries, employees' rights at work are generally regulated by **work contracts**, but not always
 - In these countries, not having a written contract means that employees are not legally protected by labour laws (*de jure* lack of protection)
 - But sometimes these employees may still enjoy rights at work (*de facto* protection)
 - And sometimes employees may have a work contract but may not enjoy rights at work (*de facto* lack of protection)

We cannot use **existence of a working contract** to measure protection under national legislation
But we can use **entitlements to benefits**



8

The meaning of the “entitlement to certain employment benefits” criterion

- Identifies employees who do not have the right to benefits covered in labour laws
 - For example: the right to paid annual or sick leave, maternity leave / compensation in case of dismissal (severance pay) / advanced notice in case of dismissal / etc.
- Pay attention that the benefits should be stipulated in labour laws
 - Labour laws do not always stipulate right to paid vacation or sick leave
- It is better to use the criterion of entitlement to labour benefits than a criterion of existence of a working contract
 - Workers who are legally protected may not be entitled to the benefits of this protection
 - Workers who are not legally protected may enjoy some or all benefits



De jure versus de facto labour benefits

- However, employees may be entitled to labour benefits but still not be in a position to claim these benefits
 - Because mechanisms to enforce the regulation may be deficient
- It is more meaningful to use a criterion of “actual benefits received” than “entitlements”
 - De facto benefits versus De jure benefits
 - For example: does the worker benefit of paid vacation, sick leave, etc. as opposed to does the worker have the right to paid vacation, sick leave, etc.
- **We prefer to use *de facto* benefits**
 - Reflect more accurately the notion of not being covered or being insufficiently covered by formal arrangements
 - Can be applied where written work contracts are not required by law



The meaning of the “does not pay income tax” criterion

- Meaningful only in countries where employees are expected to pay a tax on their earnings or at least declare their earnings to the tax authorities
 - They will be declared by their employers and have a tax identity number
 - Otherwise, they have informal jobs
 - Some employees may be exempted from paying or even declaring their earnings because they are too low
 - But they may still have a tax identity number
 - Are they informal?



The meaning of the “does not contribute to social security schemes” criterion

- Meaningful only in countries where the social security system is employment-related
 - As opposed to “universal” systems where coverage is not derived from the job
- Meaningful only in countries where the system is compulsory
 - Voluntary schemes do not qualify
 - Can be public or private schemes
 - Employees will be declared by their employers and have a social security identity number
 - Otherwise, they have informal jobs (e.g., if their income is too low or are casual)
 - Some employees may be exempted from contributing to a social security scheme because their earnings or hours worked are too low
 - Are they informal?



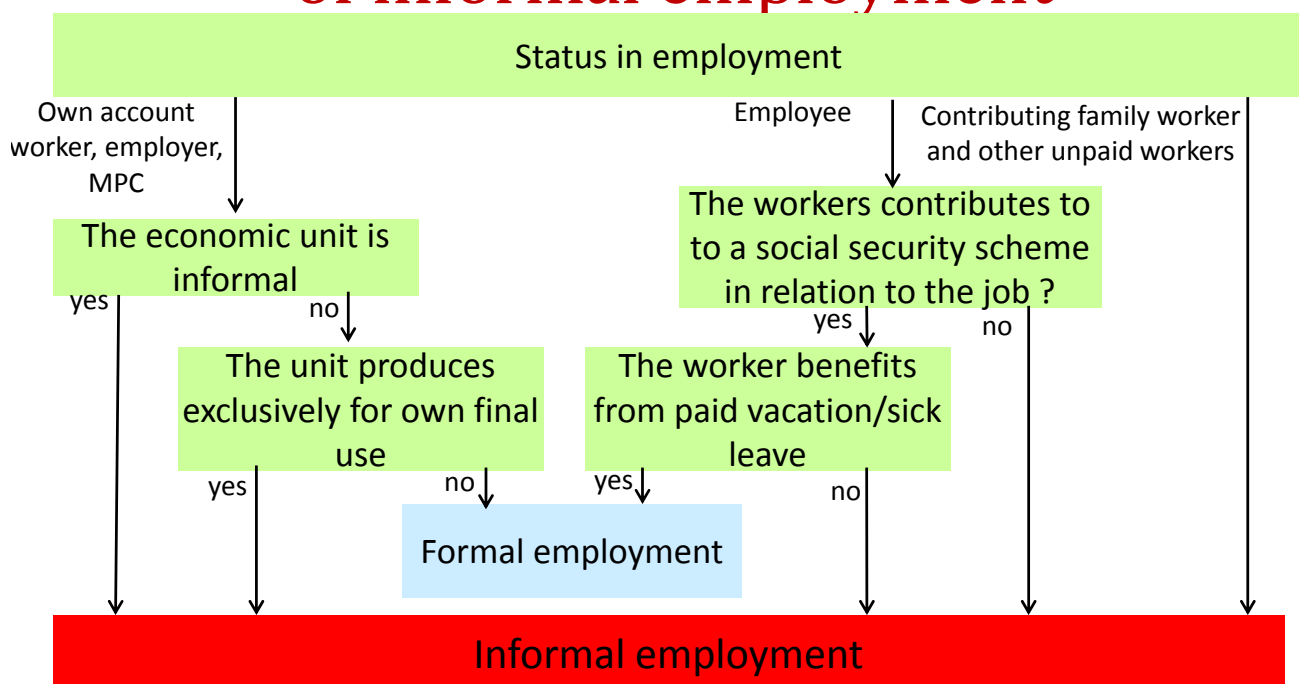
Other criteria not mentioned that can be used

- Written contract
 - Useful when it implies labour legislation coverage
 - But beware that employees may not actually enjoy benefits of labour legislation
- Casual/temporary nature of job
 - Useful when labour legislation does not cover employees in these situations
 - But beware that there may be employees in permanent jobs that may also be informal
- Low working hours or low wages
 - Useful when workers in these situations are not expected to contribute to social security systems, to pay taxes or to enjoy any work benefits
 - But beware that this is not an exhaustive group of employees



These criteria **cannot** be used to define the informal employment but may be used when information on main criteria is not available

Example: from criteria to a definition of informal employment



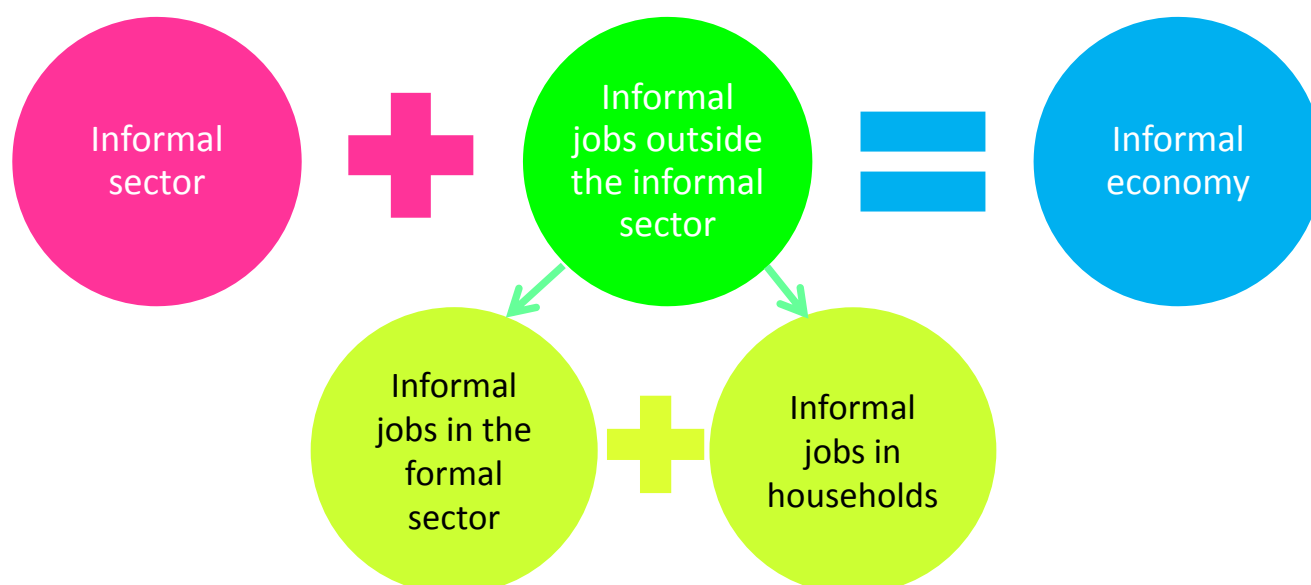
Challenge: formal employees in the informal sector

- 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!!

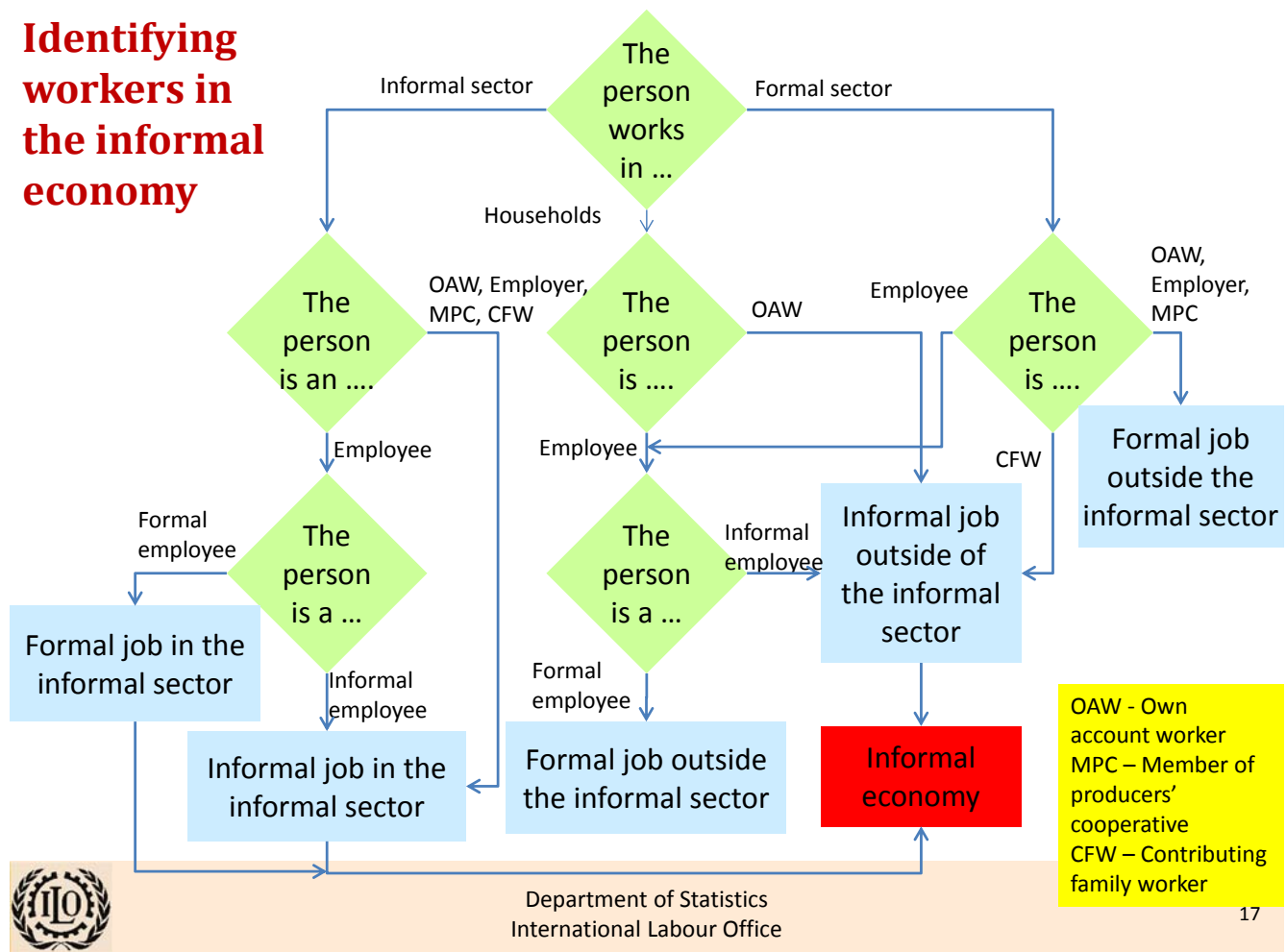


Identifying workers in the informal economy

Remember the equation:



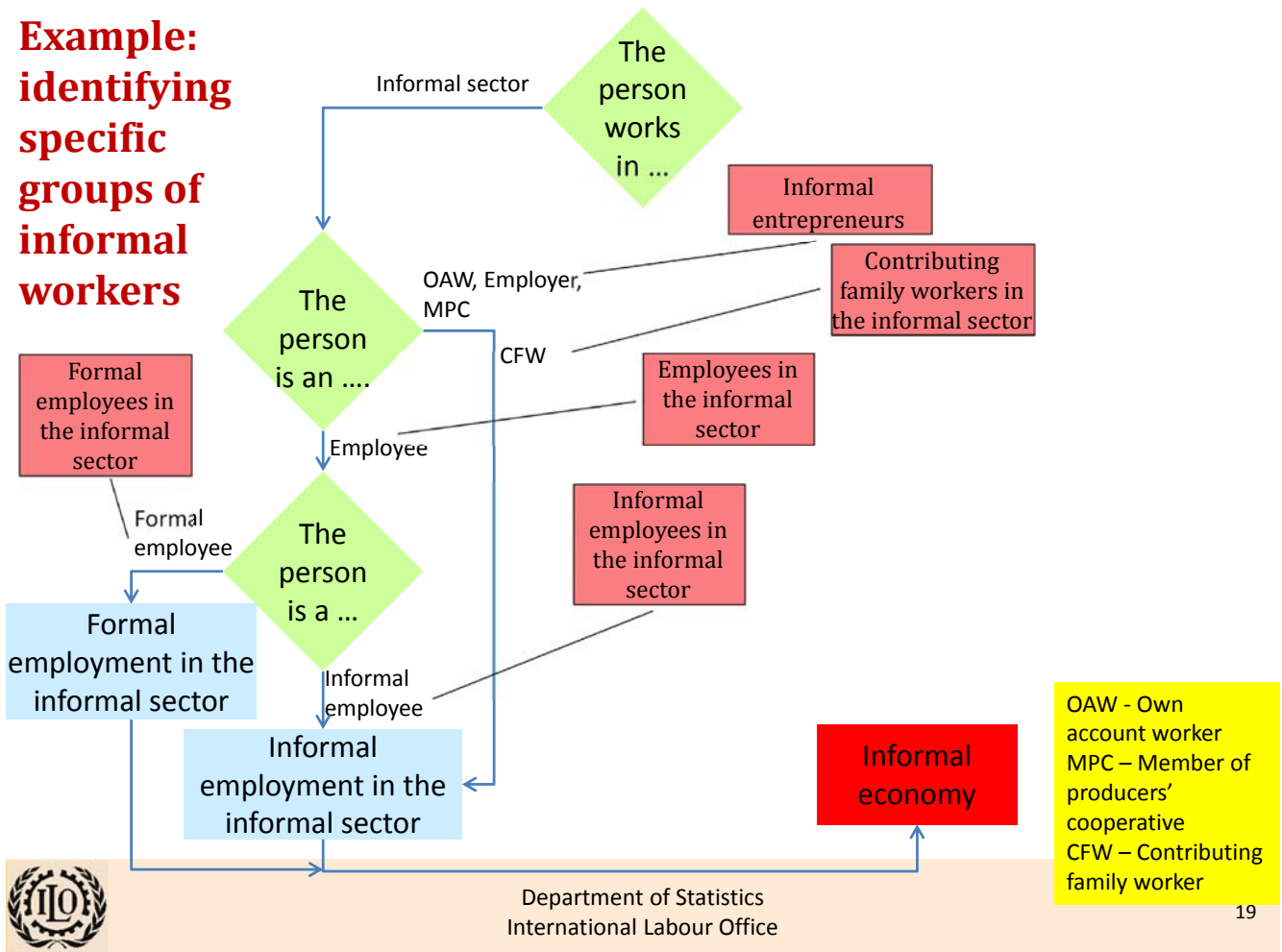
Identifying workers in the informal economy



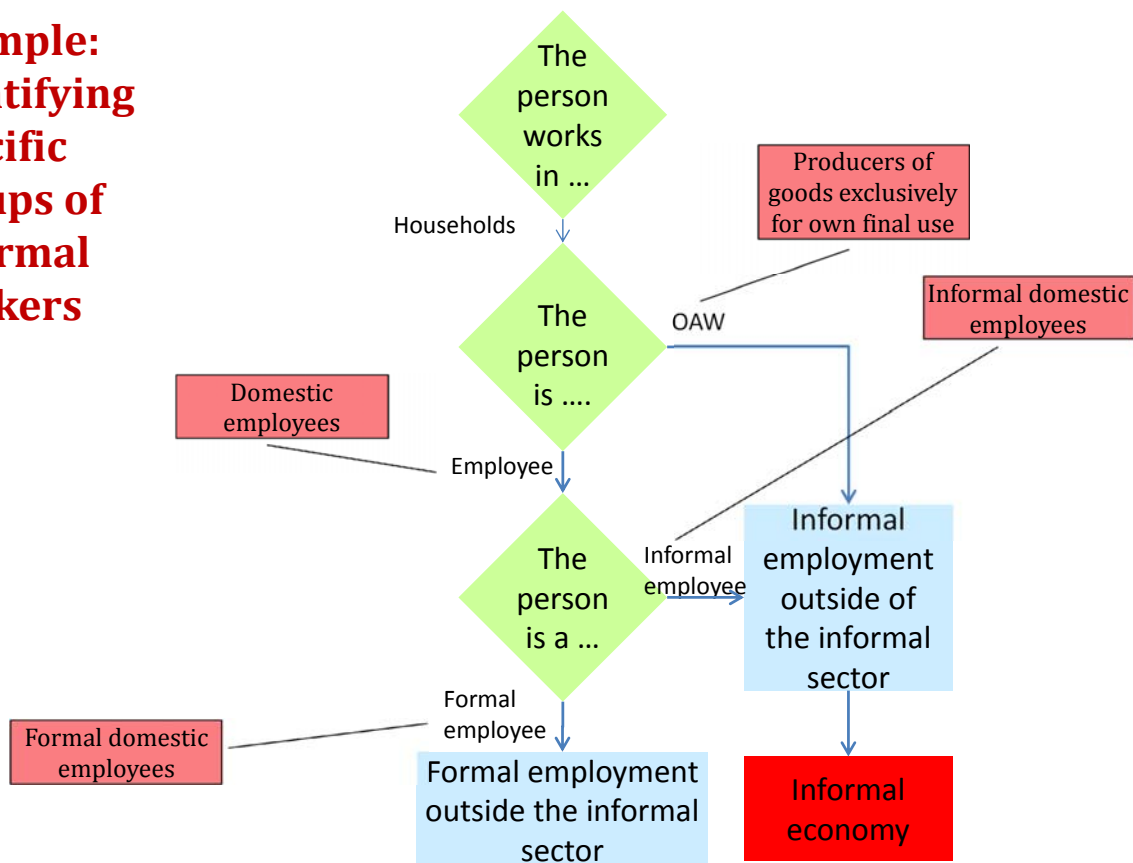
Number of workers in the informal economy

- 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 in the formal sector
 - Informal employees in the formal sector
 - Contributing family workers in the formal sector
 - Other unpaid workers in the formal sector
- Workers with informal jobs in households
 - Informal domestic employees
 - Producers of goods of goods for own final use
 - Other unpaid workers in households

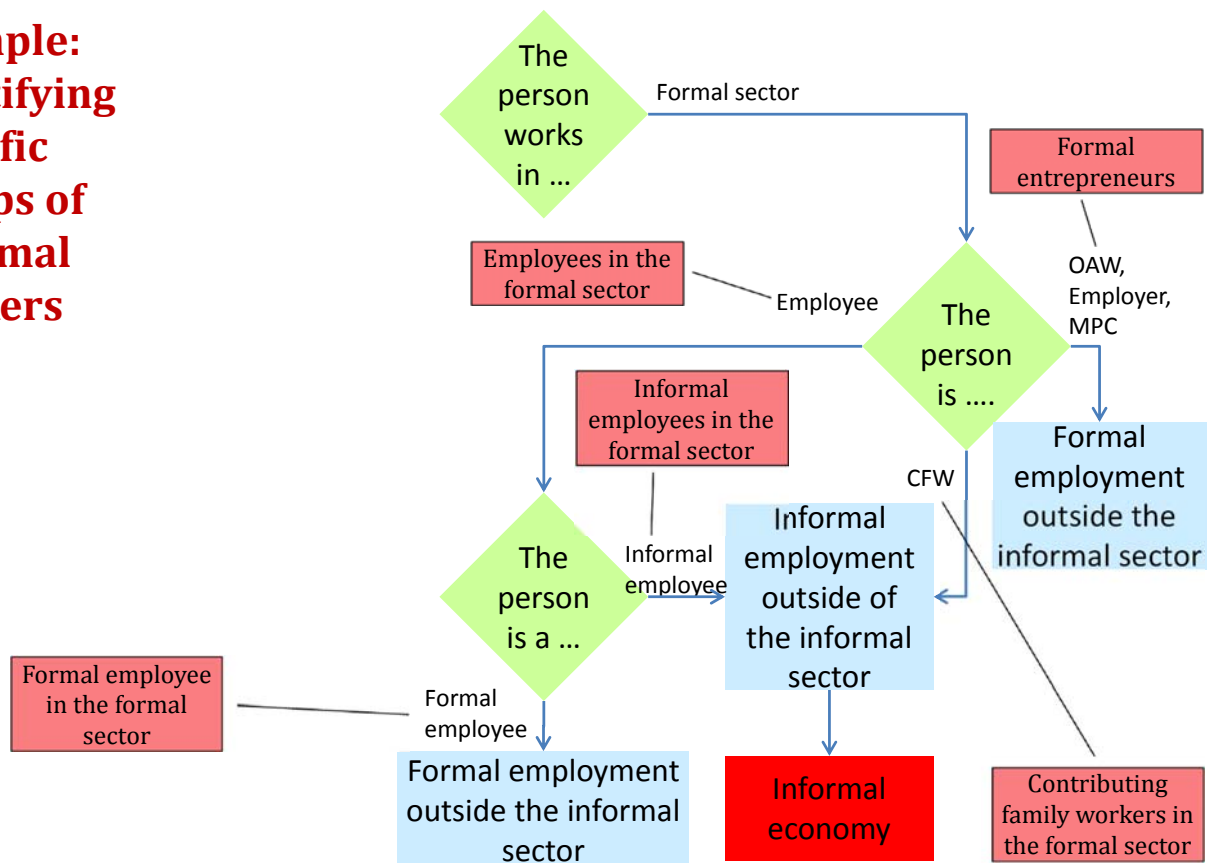
Example: identifying specific groups of informal workers



Example: identifying specific groups of informal workers



Example: identifying specific groups of informal workers



QUIZZZZZZZZ!!!!

- Workers with an informal job can never work in formal sector economic units
- Workers with an informal job can only work in the formal sector
- Contributing family workers will have a formal job if they have right to vacations
- Contributing family workers in the formal sector have formal jobs
- Informal sector entrepreneurs always have informal jobs
- It is not possible to work in the informal sector and have a formal job



QUIZZZZZZZ!!!!

- Employees with an informal job can be defined on the basis of which of these criteria:
 - Are not covered by social security
 - Are not entitled to annual leave, sick leave, maternity leave
 - Are at risk of being dismissed without notice
 - Are harassed by the boss
 - Do not have a written contract
 - Have a casual job
 - Do not pay income taxes



Arriving at a national definition of the informal economy

- Choice of criteria by countries depend on many factors
 - National priority and perception
 - Policies on informal economy
 - Legal framework
 - Statistical system
 - Independence and discriminant power of variables
- Not all the definition criteria may be necessary
- Evaluate how relevant each of the definition criteria are in the national context
 - Pay attention to labour, tax and registration legislation
- If a criterion has important drawbacks, do not discard it!!
 - But complement it with other criteria



Evaluate relevance of criteria: the informal sector

- Product destination may not be necessary
 - If production exclusively for own final use is not important in the country
 - Or if workers doing this type of work are excluded from the scope of the informal economy in the country
 - But if they are important they should be included in the scope!!!
- Not all economic units may be required to keeping full accounts or any accounts at all
 - But they may still pay taxes!!
 - Review legislation in the country!!!
- Not all economic units may be required to register
 - Or all economic units, even informal ones, are registered
 - Review legislation in the country!!!
- Not all economic units may be required to pay taxes or to be registered for sales tax
- There may be too many small units which are formal in the country



Evaluate relevance of criteria: employees with informal jobs

- Existence of a written contract may not reflect that labour legislation applies
 - Government employees may not have a written contract
 - OR: anybody has a written contract, but it is not binding
- Social security coverage may be too basic in the country
 - There are no programs available for all types of employees
 - Only government employees are covered
 - Even for employees covered, services are too basic and they cannot really benefit from them
 - Social security coverage may not be dependent on employment
- Labour legislation does not expect employees to have paid vacation, or paid leave
 - Sometimes they may have the right to vacation or to sick leave but it is not paid
- Not all employees may be required to pay income taxes



Mapping the national definition to the international definition

- Comparison between the national definition and the international definition
 - Arguments for excluding some criteria
 - Arguments for including new criteria
 - Explanation of each of the criteria used
 - Some may be particular to the national circumstances



Example: South Africa

- To define the informal sector
 - For the self employed: Use registration with value added tax authorities or income tax authorities (VAT/IT)
 - For employees: use income tax deductions from salary
- To define informal jobs of employees
 - Use questions on employment contract and contribution to pension fund



Example: India

- To define the informal sector
 - Use legal status
 - Because proprietary and partnership firms in India do not have any separate legal status other than that of the owners (they are unincorporated)
 - Use size of employment (fewer than 10 workers)
 - This is the threshold used in various labour laws, and based on analysis of productivity differentials of establishments with different employment sizes and development policies
 - Do not use maintenance of complete accounts
 - Because it is implicit in the two previous criteria: there is no requirement of private establishments employing less than 10 workers to maintain such accounts
 - Do not use registration
 - Because there is no single registration system covering all firms and giving separate legal status to all the registered units



Example: India

- To define employees with informal jobs
 - Used type of contract (regular or casual employee)
 - All casual employees have informal jobs
 - Used social security coverage for regular employees
 - Regular employees with no social security coverage have informal jobs



Example: Mexico

- To define the informal sector
 - Use type of place of work
 - Exclude all units that have fixed visible premises and an office
 - Use bookkeeping for all other units
 - As the law does not require that all economic units keep full accounts, only those economic units that do not keep any form of accounts are included in the informal sector

