

# **Manual on Surveys of Informal Employment and Informal Sector**

## **Draft Chapter 2:**

### **Concepts, definitions and sub-classifications of informal sector and informal employment**

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## 1. Introduction

In January 1993, the *Fifteenth International Conference of Labour Statisticians (15<sup>th</sup> ICLS)*, adopted a *Resolution concerning statistics of employment in the informal sector (ILO, 2000)* to assist national statistical offices in developing definitions, classifications and methods of data collection for the informal sector. The Resolution covers issues relating to the definition of the informal sector and the design, content and conduct of informal sector surveys. It represents the first – and so far only – international statistical standards on the topic. Following suggestions by the Expert Group on Informal Sector Statistics (Delhi Group) and others, in November-December 2003 the *Seventeenth International Conference of Labour Statisticians (17<sup>th</sup> ICLS)* endorsed *Guidelines concerning a statistical definition of informal employment*, which complement the 15<sup>th</sup> ICLS resolution.

The purpose of this chapter is to summarize and explain the international statistical definitions of informal sector enterprises, employment in the informal sector, and informal employment, which were adopted by the Fifteenth and Seventeenth International Conferences of Labour Statisticians. The chapter also deals with a number of related issues, including the links of the concepts of informal sector and informal employment with the concept of the non-observed economy and the term ‘informal economy’, and important sub-classifications of informal sector enterprises, employment in the informal sector and informal employment.

## 2. Informal sector

### 2.1 Basic considerations in developing an international statistical standard definition

Since its first appearance in the early 1970s, the term *informal sector* has become so popular that nowadays it is used with different meanings for different purposes. Originally, it referred to a concept for data analysis and policy-making. Now it is sometimes used in a much broader sense to refer to a concept for the collection of data on activities not covered by the existing, conventional sources of statistics. In line with the original notion behind the concept, the starting point of the 15th ICLS in defining the informal sector was an understanding of the informal sector as an *analytical/political* concept rather than a *statistical* one. Paragraph 5 (1) of the Resolution states:

“The informal sector may be broadly characterised as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. These units typically 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. Labour relations – where they exist – are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees.”

Care was taken by the 15th ICLS to make the activities included in the informal sector definition as homogeneous as possible with respect to their economic objectives and behaviour, and the requirements for data analysis. From the practical

viewpoint of survey operations, a related consideration regarding the inclusion of enterprises was the need for, and usefulness of, their coverage in informal sector surveys.

The 15th ICLS also tried to accommodate as far as possible the notion of the informal sector as a statistical concept in extending its scope to as large a universe of non-observed activities as seemed practically feasible and conceptually justifiable, but rejected its interpretation as “catch-all” concept. Thus, the definition adopted does not lead to a segmentation of the economy or the employed population according to a formal/informal sector dichotomy. The 15th ICLS recognised that activities excluded from the scope of the informal sector were not necessarily formal. Examples are the household production of goods for own final use, small-scale agriculture, paid domestic services, and activities presently falling outside the SNA production boundary, i.e. domestic or personal services provided by unpaid household members to their own or another household. It was recommended that such activities should be identified as belonging to separate categories outside the formal/informal sector distinction (see para. 20 of the 15<sup>th</sup> ICLS resolution).

The definition had to be acceptable to a wide range of countries from different parts of the world. Thus, the definition had to be broad enough to encompass the variety of ways in which the informal sector manifests itself in different countries. It had to provide flexibility for the adoption of more specific definitions at the country level, reflecting national circumstances, even though such flexibility would adversely affect the international comparability of the statistics.

Finally, the 15th ICLS was requested to develop a definition of the informal sector in such a way that the definition could be included in the SNA 1993. The international statistical definition of the informal sector, which was adopted by the 15th ICLS, indeed formed part of the SNA 1993, although Chapter IV of the SNA 1993 reproduced only the main parts of the definition. The SNA 2008 provides more detail as it includes a full chapter on *Informal aspects of the economy* (Chapter 25)<sup>1</sup>. Identification of the activities undertaken by informal sector enterprises within the national accounts makes it possible to quantify the contribution of the informal sector to the national economy, which is an urgent statistical need for many countries and provides recognition to the persons employed in the informal sector. This requirement had however certain implications for the nature of the definition.

In order to obtain an internationally agreed definition of the informal sector, which was acceptable to labour statisticians as well as national accountants, the informal sector had to be defined in terms of characteristics of the production units (enterprises) in which the activities take place (enterprise approach), rather than in terms of the characteristics of the persons involved or of their jobs (labour approach). As a result, persons are classified as employed in the informal sector if they undertake their jobs in enterprises, whose characteristics meet the criteria of the informal sector definition.

Persons employed in production units outside the informal sector are excluded from the international definition of the informal sector, no matter how precarious their employment situation may be. Thus, the concept of *employment in the informal sector*

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<sup>1</sup> European Commission et.al., 2009.

is different from the concept of *informal employment*, i.e., persons employed in informal jobs. The 15th ICLS was aware of the need for statistics not only on employment in the informal sector, but also on employment in informal jobs. Paragraph 22 (4) of its Resolution suggests for measurement through household surveys that “depending on national circumstances and data needs, information on various forms of atypical or precarious employment outside the informal sector may be obtained along with data on the different forms of employment in the informal sector”. It was however more than 10 years later that an international statistical definition of informal employment was adopted by the 17<sup>th</sup> ICLS to complement the informal sector definition (see Section 3 of this chapter).

The 15<sup>th</sup> ICLS defined the informal sector as a sub-group of production units included in the SNA institutional sector ‘households’. In other words, informal sector enterprises were defined as a subset of household unincorporated enterprises. In contrast to corporations and quasi-corporations, a household unincorporated enterprise is a producing unit that is not constituted as a separate legal entity independently of the household member(s) who own(s) it. It has no complete set of accounts that would provide a means of identifying flows of income and capital between the enterprise and the owner(s). Household unincorporated enterprises include unincorporated enterprises owned and operated by individual household members or by several members of the same household, as well as unincorporated partnerships formed by members of different households, provided they lack complete sets of accounts (see para. 7 of the 15<sup>th</sup> ICLS resolution).

In this context, the term ‘*enterprise*’ is to be understood in a broad sense, referring to any unit engaged in the production of goods or services for sale or barter. It covers not only production units that employ hired labour, but also those that are owned and operated by single individuals working on own-account as self-employed persons, either alone or with the help of unpaid family members. The production activities may be undertaken inside or outside the business owner’s home, and they may be carried out in identifiable premises, unidentifiable premises or without fixed location. Accordingly, independent street vendors, taxi drivers, home-based workers, etc., are all considered to be enterprises.

The meaning of the term ‘*sector*’ follows the SNA. However, in the context of defining the informal sector only the productive activities of households are concerned. For national accounting purposes, a sector (institutional sector) is different from a branch of economic activity (industry). It groups together similar kinds of units, which in terms of their principal functions, behaviour and objectives have certain characteristics in common. The result is not necessarily a homogeneous set of production units. For the purposes of analysis and policy-making, it may thus be useful to divide a sector into more homogeneous sub-sectors.

In paragraph 5 (2) of its resolution, the 15th ICLS recognised that the characteristic features of household unincorporated enterprises described in the SNA corresponded well to the concept of the informal sector as commonly understood. The fixed and other capital used does not belong to the enterprises as such but to their owners. The enterprises as such cannot engage in transactions or enter into contracts with other units, nor incur liabilities on their own behalf. The owners have to raise the necessary finance at their own risk and are personally liable, without limit, for any

debts or obligations incurred in the production process. Expenditure for production is often indistinguishable from household expenditure, and capital equipment such as buildings or vehicles may be used indistinguishably for business and household purposes.

## 2.2 International statistical definition of the informal sector (15<sup>th</sup> ICLS)

### 2.2.1 Core definition of informal sector enterprises

The first three criteria of the definition of informal sector enterprises adopted by the 15th ICLS refer to the legal organisation of the enterprises, their ownership and the type of accounts kept for them. These three criteria are all embodied in the concept of household unincorporated enterprises as described above. However, while all informal sector enterprises can be regarded as household unincorporated enterprises, not all household unincorporated enterprises belong to the informal sector. In defining the additional criteria to distinguish informal sector enterprises from other household unincorporated enterprises, the 15th ICLS adopted a modular approach, as illustrated in Diagram 1 below.

**Diagram 1: Classification of household unincorporated enterprises (15<sup>th</sup> ICLS)**

Household unincorporated enterprises	Informal sector enterprises	Other household unincorporated enterprises
Own-account enterprises	Informal own-account enterprises	Other own-account enterprises
Enterprises of employers	Enterprises of informal employers	Other enterprises of employers

Within household unincorporated enterprises a distinction was made between enterprises of employers and own-account enterprises. In accordance with the definitions of employers and own-account workers of the 1993 International Classification of Status in Employment (ICSE-93), the distinction was based on whether or not an enterprise employs at least one employee on a continuous basis (in contrast to employment of employees on an occasional basis or employment of contributing family workers). The distinction was deemed important for definitional purposes. Compared with own-account enterprises, enterprises of employers necessarily have a higher degree of formality in their operations, and therefore require additional criteria for being classified in the informal sector. Moreover, the distinction between these two groups of enterprises was considered useful for the purposes of data analysis and policy making and for the stratification of informal sector survey samples. Accordingly, the informal sector was defined as comprising informal own-

account enterprises and enterprises of informal employers, for which separate criteria were specified as described in Sections 2.2.1.1 and 2.2.1.2 below.

There are basically two different but interrelated ways of viewing and defining the informal sector. One approach views enterprises in relation to the legal and administrative framework in force and defines the informal sector as made up of enterprises that do not conform to this framework in some way. It assumes an intrinsic relation between non-registration and the notion of informality. The second approach views the informal sector as a particular form of production, and defines it in terms of the way the enterprises are organised and carry out their activities. Supporters of the second approach maintain that the informal sector is not identical with the unregistered sector. They stress the need for a clear conceptual basis in defining the sector, and point out the problems that a criterion based on registration may pose for the comparability of informal sector statistics between countries, between different areas within a country, and over time. They also mention the practical difficulties of obtaining information on the registration of enterprises, as their owners may be reluctant to provide this information, and other respondents (e.g. employees) may be unable to do so. They view non-registration as a characteristic of the informal sector rather than as a criterion for defining it.

There was no agreement at the 15th ICLS as to which of the two approaches was better. Thus, the definition finally adopted by the 15th ICLS incorporated both approaches in the sense that it allows non-registration and/or employment size to be used as criteria to distinguish informal sector enterprises from other household unincorporated enterprises.

### **2.2.1.1 Informal own-account enterprises**

In paragraph 8 of its resolution, the 15th ICLS specified that, depending on national circumstances, either all own-account enterprises should be considered informal, or only those that are not registered under specific forms of national legislation. The legislation referenced includes factories' and commercial acts, tax and social security laws, professional groups' regulatory acts, and similar acts, laws or regulations established by national legislative bodies. Regulations enacted by local authorities for the purpose of obtaining a trade license or a permit to operate a business are excluded from the criterion. They are not considered to be appropriate because they are governed by administrative regulations and their enforcement that may vary considerably from one country to another and, within the same country, over time or between different regions. Moreover, they are not considered to have much of an effect on the way the enterprises are organised and operate nor on their economic objectives and behaviour, and homogeneity of economic objectives and behaviour is the guiding principle for distinguishing between the various institutional sectors and sub-sectors in the SNA. It should be noted that in many countries the criterion of non-registration, if properly defined, also covers the criteria of lack of legal identity and lack of a complete set of accounts.

The 15th ICLS did not include any size criterion in the definition of informal own-account enterprises. Such a criterion was considered superfluous, as by their very nature virtually all own-account enterprises are small.

### 2.2.1.2 Enterprises of informal employers

In paragraph 9 of its resolution, the 15th ICLS specified that enterprises of informal employers should be defined in terms of one or more of the following three criteria:

- small size of the enterprise in terms of employment;
- non-registration of the enterprise (defined as for informal own-account enterprises);
- non-registration of its employees.

According to the 15th ICLS, the criterion of employment size can be formulated in terms of the number of employees employed by the enterprise on a continuous basis, or the total number of employees (including employees employed on an occasional basis), or the total number of persons engaged during a specific reference period (including the entrepreneur, business partners and contributing family workers in addition to the employees). The first of these is considered to be the ideal measure from the conceptual point of view, as it matches best the definition of informal own-account enterprises, which does not take account of the number of enterprise owners, business partners, contributing family workers and casual employees working in the enterprise. In practice, however, information on the number of all employees or on the total number of persons engaged is more easily obtained from survey respondents than information on the number of employees employed on a continuous basis, and may correspond more closely to the criterion used in practice to define the lower size cut-off point for surveys of formal sector enterprises or establishments.

In the case of enterprises composed of more than one establishment, the 15th ICLS recommended use of the establishment rather than the enterprise as the unit to which the size criterion refers. It specified that an enterprise composed of more than one establishment should be considered informal if none of its establishments exceeded the size limit. For many countries, the use of the establishment rather than the enterprise as the unit for the size criterion ensures compatibility with the criterion determining coverage of formal sector establishment surveys. Thus informal and formal sector statistics can complement each other. It also becomes possible in this way to capture the development of informal sector enterprises that for various reasons tend to grow through the creation of additional small establishments rather than through an expansion of employment in the original establishment.

An important advantage of the size criterion in defining the informal sector is that size can be measured relatively easily by all relevant types of surveys. In addition, there is usually correlation between small size and other aspects of informality, in particular:

- small enterprises can remain unidentified by the authorities more easily than larger enterprises;
- governments with limited administrative resources tend to focus on large enterprises when trying to collect taxes or enforce labour legislation;
- unions tend to concentrate on large enterprises, which can be reached more easily, so that their efforts will achieve maximum results; and
- small enterprises tend to use more traditional technologies.

On the other hand, proponents of non-registration as the informal sector criterion note that small size, unless used in combination with other criteria, is not sufficient to define the informal sector and that the choice of the size limit is more or less arbitrary.

The size limit for enterprises of informal employers was not specified by the 15th ICLS so that it can be varied according to needs between countries and even between branches of economic activity within a country. In order to avoid an overlap with formal sector surveys, it was recommended that the choice of the size limit should take account of the coverage of enterprise/establishment surveys of the larger units in the corresponding branches of economic activity, where such surveys exist. However, some national statistical offices actually prefer to have a certain overlap in coverage, providing it can be identified, because response rates and data quality in enterprise/establishment surveys tend to be relatively poor for the smaller units.

During the 15th ICLS consideration was given to defining the informal sector residually as comprising all units that are not covered in existing enterprise/establishment surveys. It was however decided that such a definition would not be appropriate for data analysis and policy making as it would tend to be unstable over time – the informal sector would expand or contract if the coverage of the existing surveys were changed. It would also introduce substantial differences between countries depending upon the coverage of their surveys. Furthermore, it was recommended that, where the existing cut-off point used for formal sector surveys seemed too high to be useful as size limit for the informal sector, efforts should be made to extend formal sector survey coverage by lowering their cut-off point, and thereby close the gap from both ends. Where this is not possible, it may be preferable to recognise the existence of an intermediate segment, and to cover it through a separate survey rather than to include it in the scope of informal sector surveys. This is because the survey methods used for the collection of data on informal sector enterprises may not be equally well suited to medium-sized enterprises.

The criterion of non-registration of the employees of the enterprise refers to the conditions of employment in the informal sector regarding the employees' social and legal protection. It is defined in terms of the absence of employment or apprenticeship contracts which commit the employer to pay relevant taxes and social security contributions on behalf of the employees or which make the employment relationships subject to standard labour legislation. According to this criterion, an enterprise is informal if none of its employees are registered. The criterion is especially useful in countries where the registration of workers also leads to the registration of the enterprises employing them, e.g. with the social security institutions. In other countries, registration of workers is likely to be more useful as a criterion to define informal jobs of employees than as a criterion to define the informal sector.

Diagram 2 below summarizes the criteria of the 15<sup>th</sup> ICLS definition of informal sector enterprises.



**Diagram 2: Criteria of the definition of informal sector enterprises (15<sup>th</sup> ICLS)**

<b>Criterion</b>	<b>Purpose</b>
1. Legal organisation: enterprise not constituted as a legal entity separate from its owner(s)	Identification of unincorporated enterprises
2. Ownership: enterprise owned and controlled by member(s) of household(s)	Identification of household unincorporated enterprises
3. Type of accounts: no complete set of accounts including balance sheets	Exclusion of quasi-corporations from household unincorporated enterprises
4. Product destination: at least some market output	Identification of household unincorporated enterprises with at least some market production; exclusion of household unincorporated enterprises producing goods exclusively for own final use by the household
5. Kind of economic activity	Exclusion of households employing paid domestic workers; possible exclusion of enterprises engaged in agricultural and related activities
6.1 Number of persons engaged/ employees/employees employed on a continuous basis: less than n and/or 6.2 Non-registration of the enterprise and/or 6.3 Non-registration of the employees of the enterprise	Identification of informal sector enterprises as a subset of household unincorporated enterprises with at least some market production

Diagram 3 provides examples of national definitions of informal sector enterprises, which are based on the international definition.

### **2.2.2 Scope of informal sector surveys and treatment of special cases**

In order to complement its definition of the informal sector, the 15th ICLS adopted a number of additional recommendations regarding the scope of informal sector surveys and the statistical treatment of particular cases at the borderline between the informal and other sectors (see paragraphs 14-19 of the resolution).

#### **2.2.2.1 Productive activities outside the SNA**

The scope of the informal sector is restricted to activities included in the production boundary as defined in the latest version of the SNA. This restriction was considered necessary to ensure that employment, production and income generation in the informal sector can be measured as a share of total employment, gross domestic product and national income. Excluded are domestic and personal services provided by unpaid household members to their own or another household.

**Diagram 3: Definitions of informal sector enterprises used by selected countries**

<b>Country</b>	<b>Source</b>	<b>Definition</b>
Brazil	Urban Informal Economy Survey	Household unincorporated enterprises with less than 6 employees and without complete set of accounts (agriculture excluded)
Mexico	National Survey of Occupation and Employment	Household unincorporated enterprises, which have no complete set of accounts and are not registered (agriculture excluded)
Panama	Household Survey	Household unincorporated enterprises with less than 5 employees (agriculture excluded)
AFRISTAT	1-2-3 Surveys	Household unincorporated enterprises, which are not registered with the national statistical institute or other administrations, and/or which do not have formal written accounts according to the standard plan (agriculture excluded)
Ethiopia	Urban Employment-Unemployment Survey	Household unincorporated enterprises without accounts book, which have less than 11 employees or no license (agriculture included)
Mali	Labour Force Survey 2004	Private enterprises with less than 11 persons engaged, which are not registered with the National Institute for Social Protection and do not have accounts (agriculture excluded)
Tanzania	Integrated Labour Force Survey	Household unincorporated enterprises with less than 10 employees and without complete set of accounts (agriculture excluded)
Rep. of Moldova	Labour Force Survey	Household unincorporated enterprises which are not registered (agriculture included)
Russian Federation	Population Survey on Employment Problems	Household unincorporated enterprises which are not registered as legal entity or have no legal status (agriculture included)
Turkey	Household Labour Force Survey	Household unincorporated enterprises paying lump sum tax or not paying any tax, and with less than 10 persons engaged (agriculture excluded)
India	National Sample Survey, 55 <sup>th</sup> Round (1999-2000)	Household unincorporated enterprises (agriculture excluded)
Pakistan	Labour Force Survey	Household unincorporated enterprises owned and operated by (i) own-account workers or (ii) employers with less than 10 persons engaged (agriculture excluded)

Source: ILO Bureau of Statistics

It should be noted in this connection that the SNA production boundary also includes illegal and underground production activities. In principle, such activities fall within the scope of the informal sector if they are undertaken by units meeting the criteria of the informal sector definition (see Section 6 below). In practice, however, many such activities are likely to go unreported in statistical surveys of the informal sector.

### 2.2.2.2 Production for own final use

According to the 15th ICLS, households that are exclusively engaged in the production of goods or services for own final consumption or own fixed capital formation by the same household (e.g. subsistence farming, construction of own houses) are excluded from the informal sector, with the possible exception of households employing paid domestic workers (as noted below). This recommendation was based on two considerations. Firstly, units exclusively engaged in production for own final use differ in their economic objectives and behaviour from informal sector enterprises, which are typically operated for the purpose of earning a living or obtaining an additional income through the production of goods and services for sale to others or barter. Thus, they should not be merged with informal sector enterprises. Secondly, it was noted that it is difficult to determine the value of goods produced for own final use unless the same units also produce some of their goods for sale to others.

The 15<sup>th</sup> ICLS distinction between units exclusively engaged in production for own final use and other units does not match precisely the SNA 2008 distinction between households as market producers and producers for own final use. The SNA considers as market producers only those enterprises most or all of whose output is marketed, and as producers for own final use all those units most or all of whose output is intended for own final use (SNA 2008, paragraph 25.51). The 15<sup>th</sup> ICLS chose a wider concept of market producers (i.e. household unincorporated enterprises with at least some market production) and a narrower concept of producers for own final use (i.e. household unincorporated enterprises not marketing any of their production), because it realized the practical difficulties involved in determining ‘most’ and felt the need, in the context of informal sector measurement, to take all market activities into account. These conceptual relations are shown in Diagram 4.

**Diagram 4: Household producers by product destination**

Households as producers		
Household unincorporated market enterprises (as defined by the SNA 2008)	Producers for own final use	
Selling all or most production	Selling some production	Not selling any production
Household unincorporated enterprises with at least some market production (as defined by the 15 <sup>th</sup> ICLS)		

### 2.2.2.3 Agricultural activities

Most countries exclude agricultural and related activities from the scope of statistics on the informal sector, but some include them. The 15th ICLS recognised

that, from a conceptual point of view, there was nothing against the inclusion, within the scope of the informal sector, of household unincorporated enterprises engaged in agricultural and related activities, if they meet the criteria of the informal sector definition. For practical data collection reasons, however, the 15th ICLS (paragraphs 16 and 20 of the Resolution) provided the option to exclude agricultural and related activities (ISIC tabulation categories A and B) from the scope of informal sector surveys and to measure them separately. The reasoning was that many developing countries have a large agricultural sector, mainly composed of small, unregistered household unincorporated enterprises, and that the inclusion of such enterprises in informal sector surveys would lead to considerable expansion of survey operations and increase in costs. Moreover, most national statistical systems already have an established system of agricultural surveys whose coverage includes (or can relatively easily be extended to include) household unincorporated enterprises engaged in agricultural and related activities. In terms of concepts, definitions, classifications, survey content, questionnaire design, reference periods, sampling frames and procedures, organisation of field work, etc., agricultural surveys appear better suited than informal sector surveys to meeting the particular requirements for measuring agricultural and related activities. Another reason is that the exclusion of agriculture from the scope of the informal sector may be necessary because in national accounting data on agricultural production cannot always distinguish between market production and production for own final use.

However, the 15th ICLS recommended that non-agricultural activities of household unincorporated enterprises mainly engaged in the agricultural sector should be included in the informal sector if they meet the other criteria for inclusion. Experience has shown that such non-agricultural activities are frequently undertaken as secondary activities of farm households or during the agricultural slack season.

#### **2.2.2.4 Rural areas**

Recognising the large number of informal sector activities in the rural areas of many countries and their similarity with urban informal sector activities, the 15th ICLS recommended that, in principle, the informal sector should include enterprises located in rural areas as well as enterprises located in urban areas. However, countries starting to conduct informal sector surveys were given the option to confine data collection initially to urban areas until resources and appropriate sampling frames become available to cover the whole national territory.

#### **2.2.2.5 Professional and technical services**

In the past, it had been sometimes suggested that enterprises engaged in the production of professional or technical services rendered by self-employed doctors, lawyers, accountants, architects, engineers, etc. should be excluded from the informal sector because of the high level of skills involved and other particular characteristics of such activities. However, the 15th ICLS recommended that there should be no special treatment for such enterprises, i.e., that they should be included or excluded on the same basis as other enterprises.

#### **2.2.2.6 Outworkers (Homeworkers)**

In accordance with the SNA, outworkers (homeworkers) were defined by the 15th ICLS as 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 (SNA 1993, paragraph 7.26). It was recommended that outworkers should be included among informal sector enterprises if they constitute enterprises on their own as self-employed persons, and if these enterprises meet the criteria of the informal sector definition.

Criteria for distinguishing self-employed outworkers from employee outworkers include:

- the basis of remuneration (income received as a function of the value of outputs produced versus payment related to the amount of labour inputs provided);
- employment of paid workers by the outworker;
- non-existence of an employment contract with the enterprise receiving the goods or services produced by the outworker;
- decision-making on markets, scale of operations and finance; and
- ownership of machinery or equipment.

In respect of situations, where the number of outworkers was significant or where outworkers represented a group of particular concern for data users, it was recommended that self-employed outworkers be identified as a separate sub-category of informal sector enterprises.

### **2.2.2.7 Paid domestic workers**

There was no agreement at the 15th ICLS regarding the treatment of paid domestic workers employed by households (e.g. maids, laundresses, watchmen, drivers, and gardeners) with respect to the informal sector. It was pointed out that, in many situations, it is virtually impossible to distinguish paid domestic workers who are self-employed (i.e., who are owners of household unincorporated enterprises producing services for sale on the market) from those who are employees of the households employing them (i.e., who are employees of household unincorporated 'enterprises' producing services for their own final consumption). Moreover, data on paid domestic workers and their remuneration are often available from other sources, such as labour force or household income-expenditure surveys, so there may be no need to cover such workers in an informal sector survey.

For these reasons, the issue of whether or not paid domestic workers should be included in the informal sector was left by the 15th ICLS as open for determination by the countries themselves, depending upon their national circumstances and the intended uses of the statistics. However, it was recommended that, if included in the informal sector, paid domestic workers should be identified as a separate subcategory in order to enhance the international comparability of the statistics.

It was only during the 17th ICLS that more progress on this matter was achieved. The 17th ICLS *Guidelines concerning a statistical definition of informal employment* clarify that households, which employ paid domestic workers as employees, should be excluded from the informal sector (see Section 3.2 below). The

exclusion follows a recommendation made by the Delhi Group at its third meeting (see Section 2.2.4 below). It does not concern self-employed persons, who own household unincorporated enterprises producing domestic services for sale, and the persons employed by them.

### **2.2.3 Comparability problems of national definitions**

The *ILO Compendium of official statistics on employment in the informal sector (ILO 2002c)* describes the comparability problems of currently used national definitions of the informal sector. Since the adoption of the 15th ICLS Resolution concerning statistics of employment in the informal sector in 1993, many national statistical offices have made major efforts to develop or improve official statistics on the informal sector, often in spite of scarce resources for statistics in general and for informal sector statistics in particular. As some of the available data are based on national definitions of the informal sector developed prior to 1993, they are not always fully in line with the international statistical definition adopted by the 15th ICLS. Even when based on the 15<sup>th</sup> ICLS definition, data are sometimes not strictly comparable across countries, due to the adaptability to national circumstances of the international definition. It is hoped that this manual will contribute to enhancing the international comparability of informal sector statistics in the future or, if this is not possible due to differences across countries in institutional frameworks, at least to achieve conceptual commonality.

Current data comparability problems result especially from the following factors: differences in the concepts on which the statistics are based; differences in the branches of economic activity covered, particularly in respect of the inclusion or exclusion of agricultural activities; differences in the criteria used to define the informal sector, for example, employment size of the enterprise or establishment versus non-registration of the enterprise; different cut-offs used for the employment size criterion; the inclusion or exclusion of paid domestic workers employed by households, or of producers of goods exclusively for own final use by their household; the inclusion or exclusion of persons with a secondary job in the informal sector; and the inclusion or exclusion of persons engaged in professional or technical activities.

A major deviation from the international definition is that some countries do not yet use the criterion of legal organisation of the enterprise (household unincorporated enterprises). Often, countries do not use the criterion of lack of a complete set of accounts in their national statistical definitions of the informal sector, especially when the number of quasi-corporations is known or expected to be small. In other words, the data sometimes refer to small or micro-enterprises, including small corporations and quasi-corporations. This leads to an overestimation of the size of the informal sector.

Of equal importance is the fact that some countries include small-scale or unregistered agricultural activities in their definition of the informal sector, while others do not. Since the vast majority of agricultural activities in most countries are undertaken in rural areas, such differences have a larger effect on the international comparability of data for rural areas than for urban areas.

Many of the countries for which data are available use the criterion of non-registration of the enterprise, either alone or in combination with other criteria such as small size or type of work place, to define the informal sector. In most cases the criterion refers to the non-registration of the enterprise as a corporation, or to its non-registration with the tax authorities or for statistical purposes. Many other countries use small size as a criterion to define the informal sector, either alone or in combination with criteria such as the non-registration of the enterprise or the type of work place. The criterion of non-registration of the employees of the enterprise is mainly used to define unregistered employment.

The cut-off points for the size criterion vary among countries. However, there are clear preferences for cut-off points such as "less than 5", "5 or less", "less than 10" or "10 or less". While most countries use the same size limit for all branches of economic activity, some use different size limits for different branches. Some differences among countries also exist depending on whether the size criterion is applied to the enterprise as a whole or to each of its establishments (if more than one), and whether it refers to the total number of persons engaged or to the number of employees.

National practices concerning the treatment of paid domestic workers employed by households vary across countries and data sources, as they do concerning the treatment of producers of goods exclusively for own final use by their household. The international comparability of data for women is more affected by differences in the treatment of these groups of persons than is the international comparability of data for men.

Available national data on persons employed in the informal sector often refer only to those whose main or only job/activity is in the informal sector and exclude those with a secondary job/activity in the informal sector, such as farmers or government employees. As the number of persons with a secondary job/activity in the informal sector can be quite large in some countries, data that exclude persons with a secondary job/activity in the informal sector should be considered as a lower-bound estimate of total employment in the informal sector.

Another deviation from the international definition of the informal sector is that a number of countries exclude all own-account workers engaged in professional and technical occupations from the statistics, irrespective of the characteristics of their enterprises.

#### **2.2.4 Recommendations of the Delhi Group to enhance the international comparability of informal sector statistics**

The 15th ICLS provided considerable flexibility to countries in defining and measuring the informal sector. Some elements of flexibility were desired, because the 15th ICLS resolution was the first international recommendation ever adopted on the topic and had to leave room for gaining a wide range of experience in its application, and because its main purpose was to provide technical guidelines for the development of informal sector statistics at the country level to satisfy the information needs of

national users of the statistics. Other elements of flexibility arose from lack of agreement.

However, flexibility reduces international comparability. To address the problem, the Expert Group on Informal Sector Statistics (Delhi Group), which was constituted in 1997 as one of the city groups reporting to the UN Statistical Commission, has endeavoured to harmonise national definitions of the informal sector on the basis of the framework set by the international definition. The Delhi Group recognised that there were limits to harmonisation. Nevertheless, on the basis of the largest common denominator, the Group was able to identify a subset of the informal sector that could be defined uniformly and for which countries could make internationally comparable data available. Accordingly, the Delhi Group adopted the following text:

“Since the informal sector manifests itself in different ways in different countries, national definitions of the informal sector cannot be fully harmonised at present. International agencies should disseminate informal sector data according to the national definitions used. In order to enhance the international comparability of informal sector statistics, they should also disseminate data for the subset of the informal sector, which can be defined uniformly.” (*Central Statistical Organisation/India, 1999*)

To arrive at this subset, the Delhi Group adopted the following recommendations:

1. All countries should use the criteria of legal organisation (unincorporated enterprises), of type of accounts (no complete set of accounts) and of product destination (at least some market output).
2. Specification of the employment size limit of the enterprise in the national definition of the informal sector is left to the country's discretion. For international reporting, however, countries should provide figures separately for enterprises with less than five employees<sup>2</sup>. In the case of multiple-establishment enterprises, the size limit should apply to the largest establishment.
3. Countries using the employment size criterion should provide disaggregated figures for enterprises, which are not registered, as well as for enterprises, which are registered.
4. Countries using the criterion of non-registration should provide disaggregated figures for enterprises with less than five employees as well as for enterprises with five and more employees.
5. Countries, which include agricultural activities, should provide figures separately for agricultural and non-agricultural activities.
6. Countries should include persons engaged in professional or technical activities if they meet the criteria of the informal sector definition.

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<sup>2</sup> As defined in the International Classification of Status in Employment (ICSE-93).



7. Countries should include paid domestic services unless these are provided by employees.

8. Countries should follow paragraph 18 of the Resolution adopted by the 15th ICLS regarding the treatment of outworkers/homeworkers. Countries should provide figures separately for outworkers/homeworkers included in the informal sector.

9. Countries covering urban as well as rural areas should provide figures separately for both urban and rural areas.

10. Countries using household surveys or mixed surveys should make an effort to cover not only persons whose main job is in the informal sector, but also those whose main job is in another sector and who have a secondary activity in the informal sector.

It should be noted that in most countries the subset thus defined is likely to cover only a relatively small part of the informal sector. The Delhi Group therefore recognised that further efforts were needed to enlarge the subset in future.

### **2.3 Definition of employment in the informal sector**

In paragraph 11 of its resolution, the 15<sup>th</sup> ICLS defined the *population employed in the informal sector* as comprising all persons who, during a given reference period, were employed in at least one informal sector enterprise, irrespective of their status in employment and whether it was their main or a secondary job.

Persons may have two or more jobs during a given reference period, and all, some or none of these jobs may be undertaken in informal sector enterprises. The above definition of the population employed in the informal sector stresses the distinction between *employed persons* and *jobs*. Though formulated in terms of employed persons, the definition refers in fact to jobs in informal sector enterprises.

The 15<sup>th</sup> ICLS recommended that, where possible, the population employed in the informal sector should be sub-classified into two categories: persons exclusively employed in the informal sector, and persons employed both in and outside the informal sector. The latter category should be further divided into two sub-categories: persons whose main job is in the informal sector, and persons whose secondary job is in the informal sector. Thus, the following classification of persons employed in the informal sector is suggested:

1. Persons exclusively employed in the informal sector
2. Persons employed both in and outside the informal sector
  - 2.1 Persons with main job in the informal sector
  - 2.2 Persons with secondary job in the informal sector

If the total employed population is to be classified into mutually exclusive categories of persons employed in and outside the informal sector, persons employed both in and outside the informal sector should be classified as a separate category, or

criteria should be established to determine their main job (e.g. on the basis of self-assessment, time spent at work or amount of remuneration received in each job), i.e.:

Persons exclusively employed in the informal sector	<b>Or:</b>
+ Persons employed both in and outside the informal sector, plus	Persons employed in the informal sector (according to main job)
+ Persons exclusively employed outside the informal sector	+ Persons employed outside the informal sector (according to main job)
= Total employed persons	

### 3. Informal employment

#### 3.1 Rationale for developing an international statistical standard definition

A criticism sometimes made of the informal sector definition adopted by the 15<sup>th</sup> ICLS is that persons engaged in very small-scale or casual self-employment activities may not report in statistical surveys that they are self-employed, or employed at all, although their activity falls within the enterprise-based definition. Another criticism is that informal sector statistics may be affected by errors in classifying certain groups of employed persons by status in employment, such as outworkers, subcontractors, free-lancers or other workers whose activity is at the borderline between self-employment and wage employment. Women are more likely than men to be engaged in such activities. Still another criticism is that an enterprise-based definition of the informal sector is unable to capture all aspects of the increasing so-called ‘informalisation’ of employment, which has led to a rise in various forms of informal (or non-standard, atypical, alternative, irregular, precarious, etc) employment, in parallel to the growth of the informal sector that can be observed in many countries. From the very beginning, it had however been clear that the informal sector definition adopted by the 15<sup>th</sup> ICLS was not meant to serve this purpose, which goes far beyond the measurement of employment in the informal sector.

For the above-mentioned reasons, the Expert Group on Informal Sector Statistics (Delhi Group) joined statistics users in concluding that “the definition and measurement of employment in the informal sector need(ed) to be complemented with a definition and measurement of informal employment” (*CSO/India 2001*).

‘Employment in the informal sector’ and ‘informal employment’ are concepts, which refer to different aspects of the ‘informalisation’ of employment and to different targets for policy-making. One of the two concepts cannot replace the other. They are both useful for analytical purposes and, hence, complement each other. However, the two concepts need to be defined and measured in a coherent and consistent manner, so that one can be clearly distinguished from the other. Statistics users and others often tend to confuse the two concepts because they are unaware of

the different observation units involved: enterprises on the one hand, and jobs on the other.

Table 1 below illustrates for a sample of countries how statistical results vary depending upon the concept being used. The difference between informal employment and employment in the informal sector is due to the existence of informal employment outside the informal sector (shown in the last three columns of the table) and of formal employment in the informal sector (not shown in the table because of its low numerical significance).

During its 90th Session (2002), the International Labour Conference (ILC) engaged in an extensive discussion on ‘Decent work and the informal economy’, which emphasised repeatedly the need for more and better statistics on the informal economy and requested the ILO to assist member States in the collection, analysis and dissemination of consistent, disaggregated statistics on the size, composition and contribution of the informal economy (ILO 2002a). However, in order to be able to collect statistics on the informal economy, one needs to have a definition of the informal economy. The ILC used the term ‘informal economy’ as referring to “all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements” (ILO 2002a). The ILO report on ‘Decent work and the Informal Economy’ (ILO 2002b), which had been prepared as a basis for the discussion by the ILC, defined employment in the informal economy as comprising two components: (i) employment in the informal sector as defined by the 15th ICLS, and (ii) informal employment outside the informal sector.

As part of the report, the ILO developed a conceptual framework for employment in the informal economy. The framework lent itself to statistical measurement as it built upon internationally agreed statistical definitions, which were used because of their consistency and coherence. It enables measures of employment in the informal sector to be complemented with broader measures of informal employment (Hussmanns 2001; 2002). At its fifth meeting, the Delhi Group endorsed the framework and recommended it to countries for testing (CSO/India 2001). Subsequently, several countries (Brazil, Georgia, India, Mexico and the Republic of Moldova) tested the framework successfully.

The conceptual framework developed by the ILO was submitted to the 17<sup>th</sup> ICLS (November-December 2003) for discussion. The 17<sup>th</sup> ICLS examined the framework, made some minor amendments to it, and adopted guidelines endorsing it as an international statistical standard (*ILO 2003*). These guidelines complement the 15<sup>th</sup> ICLS Resolution concerning statistics of employment in the informal sector. The work by the Delhi Group and its members was essential to the development and adoption of the guidelines.

The 17<sup>th</sup> ICLS unanimously agreed that international guidelines were useful in assisting countries in the development of national definitions of informal employment, and in enhancing the international comparability of the resulting statistics to the extent possible. It also realized that such guidelines were needed in

**Table 1: Informal employment, employment in the informal sector, and informal employment outside the informal sector in selected countries by sex**

Country	Year	Informal employment			Employment in the informal sector			Informal employment outside the informal sector		
		Both sexes	Men	Women	Both sexes	Men	Women	Both sexes	Men	Women
as % of total (male/female) non-agricultural employment										
Brazil (urban)	2003	51.1	50.2	52.3	37.4	41.9	31.5	17.1	11.5	24.4
Ecuador (urban)	2004	74.9	73.2	76.9	40.0	36.5	44.2	35.1	36.8	32.9
Mexico	1 <sup>st</sup> quarter 2005	50.1	47.8	54.0	33.1	35.2	30.0	17.5	13.3	24.0
Mali	2004	81.8	74.2	89.2	71.4	62.9	79.6	11.3	12.6	10.1
South Africa	2 <sup>nd</sup> quarter 2009	32.2	24.5	37.7	16.7	16.6	16.8	15.6	11.1	20.9
Moldova	2004	21.5	25.0	18.4	7.5	10.7	4.6	14.0	14.3	13.7
India	2004-05				.	.	.			
Philippines										

Notes: (1) Brazil: ILO estimates based on official data from various sources.

(2) Mali: ILO estimates computed from labour force survey micro-data.

(3) Other countries: labour force survey data.

(4) Due to the existence of formal jobs in the informal sector, percentages for 'employment in the informal sector' and 'informal employment outside the informal sector' may not sum up to percentages for 'informal employment'.

Source: ILO Bureau of Statistics

support of the request, which had been made by the ILC in 2002, that the ILO should assist countries in the collection, analysis and dissemination of statistics on the informal economy.

The concept of informal employment is considered to be relevant not only for developing and transition countries, but also for developed countries, for many of which the concept of the informal sector is of limited relevance. The 17<sup>th</sup> ICLS acknowledged, however, that the relevance and meaning of informal employment varied among countries, and that therefore a decision to develop statistics on it would depend on national circumstances and priorities.

During discussions on terminology, some considered the term ‘informal employment’ as being too positive and thus potentially misleading for policy purposes. Others feared that statistics users might have difficulties to understand the difference between ‘informal employment’ and ‘employment in the informal sector’ and confuse the two terms. Nevertheless, the term ‘informal employment’ was retained by the 17<sup>th</sup> ICLS because of its broadness, and because there was no agreement regarding the use of an alternative term, such as ‘unprotected employment’.

From 8 to 10 September 2008, a Tripartite Meeting of Experts on the Measurement of Decent Work was convened in Geneva by the ILO. The Meeting approved a list of statistical indicators for the measurement of decent work. Informal employment was included as one of four main indicators under the dimension ‘employment opportunities’<sup>3</sup>.

### **3.2 International statistical definition of informal employment (17<sup>th</sup> ICLS)**

The conceptual framework endorsed by the 17<sup>th</sup> ICLS relates the enterprise-based concept of employment in the informal sector in a coherent and consistent manner with a broader, job-based concept of informal employment.

A person can simultaneously have two or more formal and/or informal jobs. Due to the existence of such multiple jobholding, jobs rather than employed persons were taken as the observation units for employment. Employed persons hold jobs that can be described by various job-related characteristics, and these jobs are undertaken in production units (enterprises) that can be described by various enterprise-related characteristics.

Thus, using a building-block approach the framework disaggregates total employment according to two dimensions: type of production unit and type of job (see the matrix presented in Diagram 5 below). Type of production unit (rows of the matrix) is defined in terms of legal organisation and other enterprise-related characteristics, while type of job (columns of the matrix) is defined in terms of status in employment and other job-related characteristics.

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<sup>3</sup> The Chairperson’s report of the Meeting is available at <http://www.ilo.org/integration/lang--en/index.htm>.

*Production units* are classified into three groups: formal sector enterprises, informal sector enterprises, and households. *Formal sector enterprises* comprise corporations (including quasi-corporate enterprises), non-profit institutions, unincorporated enterprises owned by government units, and those private unincorporated enterprises producing goods or services for sale or barter, which do not form part of the informal sector. The definition of *informal sector enterprises* has already been given in Section 2 above. *Households* as production units are defined here as including households producing goods exclusively for their own final use (e.g. subsistence farming, do-it-yourself construction of own dwellings), as well as households employing paid domestic workers (maids, laundresses, gardeners, watchmen, drivers, etc.)<sup>4</sup>. Households producing *unpaid* domestic or personal services (e.g., housework, caring for family members) for their own final consumption are excluded, as such activities fall presently outside the SNA production boundary and are not considered employment.

*Jobs* are distinguished according to status-in-employment categories and according to their formal or informal nature. For status in employment, the following five ICSE-93 groups are used: own-account workers; employers; contributing family workers; employees; and members of producers' cooperatives. The breakdown by status in employment was needed for definitional purposes; however, it was also considered useful for analytical and policy-making purposes.

There are three different types of cells in the matrix shown in Diagram 5. Cells shaded in dark grey refer to jobs, which, by definition, do not exist in the type of production unit in question. For example, there cannot be contributing family workers in household non-market production units. Cells shaded in light grey refer to formal jobs. Examples are own-account workers and employers owning formal sector enterprises, employees holding formal jobs in formal sector enterprises, or members of formally established producers' cooperatives. The remaining, un-shaded cells represent the various types of informal jobs.

In paragraph 3 of its guidelines, the 17<sup>th</sup> ICLS defined *informal employment* as the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households, during a given reference period. It comprises:

- *Own-account workers and employers employed in their own informal sector enterprises* (Cells 3 and 4). The employment situation of own-account workers and employers can hardly be separated from the type of enterprise, which they own. The informal nature of their jobs follows thus directly from the characteristics of the enterprise.

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<sup>4</sup> The 15<sup>th</sup> ICLS definition of the informal sector excludes households producing *goods* exclusively for their own final use, but provides an option to include households employing paid domestic workers. The framework adopted by the 17<sup>th</sup> ICLS and presented in this chapter does not use this option and, hence, *excludes* households employing paid domestic workers from the informal sector. The exclusion follows a recommendation made by the Delhi Group during its third meeting (*CSO/India 1999*).

- *Contributing family workers*, irrespective of whether they work in formal or informal sector enterprises (Cells 1 and 5). The informal nature of their jobs is due to the fact that contributing family workers usually do not have explicit, written contracts of employment, and that usually their employment is not subject to labour legislation, social security regulations, collective agreements, etc.<sup>5</sup>.
- *Employees holding informal jobs*, whether employed by formal sector enterprises, informal sector enterprises, or as paid domestic workers by households (Cells 2, 6 and 10)<sup>6</sup>. According to paragraph 3 (5) of the guidelines endorsed by the 17<sup>th</sup> ICLS, employees are considered to have informal jobs if their employment relationship is, in law or in practice, 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.) for reasons such as: non-declaration of the jobs or the employees; casual jobs or jobs of a limited short duration; jobs with hours of work or wages below a specified threshold (e.g. for social security contributions); employment by unincorporated enterprises or by persons in households; jobs where the employee's place of work is outside the premises of the employer's enterprise (e.g. outworkers without employment contract); or jobs, for which labour regulations are not applied, not enforced, or not complied with for any other reason<sup>7</sup>.

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<sup>5</sup> Family workers with a contract of employment and/or wage would be considered employees.

<sup>6</sup> Cell 7 refers to employees holding formal jobs in informal sector enterprises. Such cases, which are included in employment in the informal sector but excluded from informal employment, may occur when enterprises are defined as informal in using size as the only criterion, or where there is no administrative link between the registration of employees and the registration of their employers. However, the number of such employees is likely to be small in most countries. Where the number is significant, it might be useful to define the informal sector in such a way that enterprises employing formal employees are excluded. Such a definition has been proposed, for example, for Argentina (*Pok 1992*) and is in line with the 15<sup>th</sup> ICLS resolution, which includes the non-registration of the employees of the enterprise among the criteria for defining the informal sector (*ILO 2000*).

<sup>7</sup> The definition corresponds to the definition of unregistered employees as specified in paragraph 9 (6) of the informal sector resolution adopted by the 15<sup>th</sup> ICLS. It encompasses the ICSE-93 definitions of non-regular employees, workers in precarious employment (casual workers, short-term workers, seasonal workers, etc.) and contractors.

**Diagram 5: Conceptual framework for informal employment**

Production units by type	Jobs by status in employment								
	Own-account workers		Employers		Contributing family workers	Employees		Members of producers' cooperatives	
	Informal	Formal	Informal	Formal	Informal	Informal	Formal	Informal	Formal
Formal sector enterprises					1	2			
Informal sector enterprises <sup>(a)</sup>	3		4		5	6	7	8	
Households <sup>(b)</sup>	9					10			

- (a) As defined by the Fifteenth International Conference of Labour Statisticians (excluding households employing paid domestic workers).
- (b) Households producing goods exclusively for their own final use and households employing paid domestic workers.

Note: Cells shaded in dark grey refer to jobs, which, by definition, do not exist in the type of production unit in question. Cells shaded in light grey refer to formal jobs. Un-shaded cells represent the various types of informal jobs.

**Informal employment:** Cells 1 to 6 and 8 to 10.

**Employment in the informal sector:** Cells 3 to 8.

**Informal employment outside the informal sector:** Cells 1, 2, 9 and 10.

- *Members of informal producers' cooperatives* (Cell 8). The informal nature of their jobs follows directly from the characteristics of the cooperative of which they are member<sup>8</sup>.
- *Own-account workers engaged in the production of goods exclusively for own final use by their household* (such as subsistence farming or do-it-yourself construction of own dwellings), if considered employed according to the 13<sup>th</sup> ICLS definition of employment<sup>9</sup> (Cell 9).

<sup>8</sup> Producers' cooperatives, which are formally established as legal entities, are incorporated enterprises and, hence, part of the formal sector. Members of such formally established producers' cooperatives are considered to have formal jobs. Producers' cooperatives, which are not formally established as legal entities, are treated as private unincorporated enterprises owned by members of several households. They are part of the informal sector if they also meet the other criteria of the definition.

<sup>9</sup> The definition specifies that persons engaged in household production for own final use should be considered employed if their production represents an important contribution to the total consumption of the household.



The components of informal employment are summarised in Diagram 6 below.

**Diagram 6: Components of informal employment (17<sup>th</sup> ICLS)**

Informal employment				
Own-account workers and employers employed in their own informal sector enterprises	Contributing family workers	Employees holding informal jobs	Members of informal producers' cooperatives	Own-account workers producing goods exclusively for own final use by their household (if considered employed)

The major new element is the above definition of informal jobs of employees. However, given the large diversity of informal employment situations found in different countries, the 17<sup>th</sup> ICLS had to leave the operational criteria for defining informal jobs of employees for determination by countries in accordance with national circumstances and data availability. The impact on the international comparability of the resulting statistics was recognized by the 17<sup>th</sup> ICLS. Examples of the definitions of informal jobs of employees, which are being used by countries, are given in Diagram 7.

An important definitional issue is the possible discrepancy between the formality of employment situations and their reality. Sometimes employees, although in theory protected by labour legislation, covered by social security, entitled to employment benefits, etc., are in practice not in a position to claim their rights because mechanisms to enforce the existing regulations are lacking or deficient. Or the regulations are not applied when the employees agree to waive their rights, because they prefer to trade in higher take-home pay for legal and social protection. For these reasons, the 17<sup>th</sup> ICLS definition of informal jobs of employees covers not only employment situations, which are *de jure* informal, but also employment situations, which are *de facto* informal (“in law or in practice”).

*Employment in the informal sector* encompasses the sum of Cells 3 to 8 in Diagram 5. *Informal employment* encompasses the sum of Cells 1 to 6 and 8 to 10. The sum of Cells 1, 2, 9 and 10 is called *informal employment outside the informal sector*.

According to paragraph 5 of the 17<sup>th</sup> ICLS guidelines, informal employment outside the informal sector comprises the following types of jobs:

- Employees holding informal jobs in formal sector enterprises (Cell 2) or as paid domestic workers employed by households (Cell 10);
- Contributing family workers working in formal sector enterprises (Cell 1);

**Diagram 7:**  
**Definitions of informal jobs of employees used by selected countries**

<b>Country</b>	<b>Source</b>	<b>Definition</b>
Brazil	National Household Sample Survey	Employees without formal contract (carteira assinada)
Mexico	National Survey of Occupation and Employment	Employees without access to public or private health services by virtue of their job
Panama	Household Survey	Employees without employment contract, plus employees with employment contract who are not covered by social security as directly insured persons (excluding employees, who as retired persons or pensioners do not have to contribute any more to social security)
Mali	Labour Force Survey 2004	Employees, for whom the employer does not pay social contributions, and who are not entitled to paid annual and sick leave
Rep. of Moldova	Labour Force Survey	Employees, for whom the employer does not pay social contributions, or who do not benefit from paid annual leave (or financial compensation for untaken leave), or who will not be given paid sick leave in the case of illness or injury
Russian Federation	Population Survey on Employment Problems	Employees without labour contract
Turkey	Household Labour Force Survey	Employees without any social security registration
India	National Sample Survey, 61 <sup>st</sup> Round (2004-2005)	Employees not entitled to social security benefits or paid sick or annual leave

Source: ILO Bureau of Statistics

- Own-account workers engaged in the production of goods exclusively for own final use by their household, if considered employed according to the 13<sup>th</sup> ICLS definition of employment (Cell 9).

Of these, Cell 2 (employees holding informal jobs in formal sector enterprises) tends to generate the largest interest among researchers, social partners and policy-makers.

### **3.3 Related issues**

#### **3.3.1 Jobs at the borderline of status-in-employment categories**

It is widely recognized that certain types of jobs are difficult to classify by status in employment because they are at the borderline of two or more of the ICSE-93 groups, especially between own-account workers and employees. An example is outworkers (home-workers). The framework adopted by the 17<sup>th</sup> ICLS and presented in this chapter makes it possible to capture all outworkers in informal employment, irrespective of their classification by status in employment. Outworkers would be included in Cells 3 or 4 of Diagram 5, if they are deemed to constitute enterprises of their own as self-employed persons, and if these enterprises meet the criteria of the informal sector definition. Persons working for such informal outworking enterprises as contributing family workers would be included in Cell 5, and persons working for them as employees in Cells 6 or 7. Outworkers working as employees for formal sector enterprises would be included in Cell 2, if they have informal jobs, and in the light grey cell next to Cell 2, if they have formal jobs.

Thus, problems in assigning jobs to status-in-employment categories affect data on informal employment based on the labour approach to a lesser extent than they affect data on employment in the informal sector based on the enterprise approach. They would lead to classification errors rather than coverage errors. However, further work is needed to develop methodologies, which would help to reduce such classification errors.

#### **3.3.2 Statistics on informal employment in the absence of data on informal sector employment**

Some countries may wish to develop statistics on informal employment, although they do not have statistics on employment in the informal sector. Other countries may wish to develop statistics on informal employment, but find that a classification of employment by type of production unit is not much relevant to them. Unless such countries want to limit the measurement of informal employment to employee jobs, they need to specify appropriate definitions of informal jobs of own-account workers, employers and members of producers' cooperatives, which do not explicitly use the informal sector concept (see para. 6 of the 17<sup>th</sup> ICLS guidelines).

#### **3.3.3 Informal jobs in agriculture**

In respect of the statistical treatment of persons engaged in agricultural activities a similar issue arises for countries, which, in line with paragraph 16 of the 15<sup>th</sup> ICLS resolution, exclude agriculture from the scope of their informal sector

statistics. In order to be able to classify all jobs (including agricultural jobs) as formal or informal, these countries will have to develop suitable definitions of informal jobs in agriculture other than those held by persons engaged in subsistence farming (Cell 9 in Diagram 5). This applies, in particular, to jobs held in agriculture by own-account workers, employers and members of producers' cooperatives (cf. para. 7 of the 17<sup>th</sup> ICLS guidelines). Regarding the definition of informal employee jobs in agriculture, it is most likely that the same criteria can be used as for the definition of informal employee jobs in other activities<sup>10</sup>.

#### **4. Non-use of 'informal economy' as a statistical term**

It should be noted that the 17<sup>th</sup> ICLS did not endorse the term '*employment in the informal economy*', which had been used in the ILO report '*Decent work and the informal economy*' to refer to the sum of employment in the informal sector and informal employment outside the informal sector (Cells 1 to 10 in Diagram 5). The 17<sup>th</sup> ICLS agreed that, for statistical purposes, it would be better to keep the concepts of informal sector and of informal employment separate. The informal sector concept, as defined by the 15<sup>th</sup> ICLS, needed to be retained because it had become part of the SNA, and because a large number of countries, as documented by the ILO (*ILO 2002c*), were collecting statistics based on it.

Accordingly, this manual seeks to avoid the term 'informal economy' and uses the terms 'informal sector' and 'informal employment' instead.

#### **5. Production units (17<sup>th</sup> ICLS) and institutional sectors (SNA)**

The 17<sup>th</sup> ICLS classification of production units by type is different from – but consistent with – the SNA 2008 classification of institutional units by sectors. The relationship between the two classifications is shown in Diagram 8 below.

According to the 17<sup>th</sup> ICLS, all production units included in the SNA institutional sectors 'non-financial corporations', 'financial corporations', 'general government' and 'non-profit institutions serving households' are considered formal sector enterprises. Depending upon their characteristics, household unincorporated enterprises with at least some market production are either formal sector enterprises or informal sector enterprises. Thus, formal sector enterprises can be found in any of the five SNA institutional sectors, including the households sector. By contrast, all informal sector enterprises fall within the households sector, as the informal sector is defined as a subset of household unincorporated enterprises with at least some market production. The 17<sup>th</sup> ICLS definition of households as production units corresponds to the SNA definition of households only producing for own final use. However, owner-occupiers of dwellings producing housing services for their own final consumption are excluded as there are no labour inputs involved.

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<sup>10</sup> Negrete (2002) already discussed these issues in his paper for the sixth meeting of the Delhi Group and made some suggestions for Mexico. See also the discussion in section 3 of Chapter 4.

**Diagram 8: Institutional units (SNA) and production units (ICLS)**

SNA 2008: Institutional units by sector		17 <sup>th</sup> ICLS: Production units by type	
Non-financial and financial corporations		Formal sector enterprises	
General government			
Non-profit institutions serving households			
Households (as producers)	Household unincorporated enterprises with at least some market production	Informal sector enterprises	
	Households only producing for own final use	Households	Producers of goods for own final use
			Employers of paid domestic workers

## 6. Links between the concepts of informal sector/employment and non-observed economy

The 17<sup>th</sup> ICLS requested the links between the concepts of informal employment and non-observed economy to be indicated. In the preamble to its guidelines, it therefore mentioned that an international conceptual framework for measurement of the non-observed economy already existed. The framework was developed as part of a handbook for measurement of the non-observed economy, which was published in 2002 by the OECD, IMF, ILO and CIS STAT (Interstate Statistical Committee of the Commonwealth of Independent States) as a supplement to the SNA 1993 (*OECD et. al., 2002*). The handbook puts the informal sector in a broader context of non-observed economy and relates it to four other concepts, with which it is often confused: underground production; illegal production; household production for own final use; and production missed due to deficiencies in data collection programmes (statistical underground)<sup>11</sup>.

The SNA 2008 defines *illegal production* as comprising (i) the production of goods or services whose sale, distribution or possession is forbidden by law, and (ii)

<sup>11</sup> The need to distinguish the concept of the informal sector from the concept of the hidden or underground economy had already been recognized by the 15<sup>th</sup> ICLS in paragraph 5 (3) of its Resolution concerning statistics of employment in the informal sector.

production activities which are usually legal but become illegal when carried out by unauthorised producers (*European Commission et.al.,2009, para. 6.43*). Examples are drug trafficking or abortions practiced by unauthorised persons.

*Concealed (or underground) production* is defined in the SNA 2008 as production activities, which are legal when performed in compliance with relevant standards or regulations, but which are deliberately concealed from public authorities for the following kinds of reasons: to avoid the payment of income, value added or other taxes; to avoid the payment of social security contributions; to avoid having to meet certain legal standards such as minimum wages, maximum hours, safety or health regulations, etc.; to avoid complying with certain administrative procedures such as completing statistical questionnaires or other administrative forms (*ibid., para. 6.40*). An example is the sale of legal goods or services without tax declaration.

The SNA 2008 acknowledges that, in practice, it may not always be easy to draw a clear borderline between underground production and illegal production. For conceptual purposes relating to the contents of the present manual, one can however use the above-mentioned definitions to distinguish three types of production activities: (i) activities, which are legal and not underground; (ii) activities, which are legal, but underground; and (iii) activities, which are illegal.

As indicated in Diagram 9 below, any type of production units (formal sector enterprises; informal sector enterprises; households) can be engaged in any type of activities (legal, not underground; legal, underground; illegal). This manual aims at measuring all activities undertaken by informal sector enterprises, including underground or illegal activities. Nevertheless, it is widely known that in developing and transition countries most informal sector activities are neither underground nor illegal, as they represent simply a survival strategy for the persons involved in them and for their households. This greatly facilitates the conduct of surveys on the informal sector in these countries.

**Diagram 9: Production units and production activities**

Production units	Production activities		
	Legal		Illegal
	Not underground	Underground	
Formal sector enterprises			
Informal sector enterprises (a)			
Households (b)			

- (a) As defined by the 15<sup>th</sup> ICLS (excluding households employing paid domestic workers).  
 (b) Households producing goods exclusively for their own final use and households employing paid domestic workers.

The vast majority of informal sector activities provide goods and services whose production and distribution are perfectly legal. This is in contrast to illegal

production. There is also a clear distinction between the informal sector and underground production. Informal sector activities are not necessarily performed with the deliberate intention of evading the payment of taxes or social security contributions, or infringing labour legislation or other regulations. Certainly, some informal sector enterprises prefer to remain unregistered or unlicensed in order to avoid compliance with some or all regulations and thereby reduce production costs. One should, however, make a distinction between those whose business revenue is high enough to bear the costs of regulations and those who cannot afford to comply with existing regulations because their income is too low and irregular, because certain laws and regulations are quite irrelevant to their needs and conditions, or because the State is virtually non-existent in their lives and lacks the means to enforce the regulations which it has enacted. In some countries at least, a sizeable proportion of informal sector enterprises are actually registered in some way, or pay taxes, even though they may not be in a position to comply with the full range of legal and administrative requirements. It should also be noted that substantial segments of underground production originate from enterprises belonging to the formal sector. Examples include the production of goods and services “off-the-books”, undeclared financial transactions or property income, overstatement of tax-deductible expenses, employment of clandestine workers, and unreported wages and overtime work of declared employees. In summary, although informal sector and underground activities may overlap, the concept of the informal sector needs to be clearly distinguished from the concept of underground production.

The activities carried out by production units are undertaken by persons employed in formal jobs or in informal jobs. This conceptual link is shown in Diagram 10 below, which combines Diagram 9 with a simplified version of the matrix adopted by the 17<sup>th</sup> ICLS as part of its guidelines. The result is a three-dimensional cube composed of 18 smaller cubes (or 45 smaller cubes, if the full version of the matrix is used). Each of the smaller cubes stands for a specific combination of type of production unit, type of activity, and type of job. Each of the smaller cubes can be defined, and examples can be given for the employment situations represented by it. This will hopefully help to sort out the widespread confusion concerning the use of the terms ‘informal sector’, ‘informal employment’ and ‘underground or illegal production’, which currently still exists.

As mentioned earlier in this chapter, *household production exclusively for own final use* by the same household is excluded from the definition of the informal sector. However, if considered employment, the production of goods for own final use by the household is included in the definition of informal employment, and so is the production of services of paid domestic workers, if the domestic workers’ jobs meet the criteria of the informal employment definition.

Non-inclusion, under-coverage, non-response or underreporting in statistical surveys result in many informal activities being *missed due to deficiencies in data collection programmes*. The very aim of this manual is to move the informal sector and informal employment out of the statistical underground, and to help making informal production units and jobs and the persons engaged in them statistically visible.

**Diagram 10: Production units, production activities and jobs**

Production units	Production activities			Jobs	
	Legal		Illegal	Formal	Informal
	Not underground	Underground			
Formal sector enterprises					
Informal sector enterprises					
Households					

## 7. Sub-classifications

### 7.1 Informal sector enterprises

Sub-classifications of informal sector enterprises are needed in order to provide information on the composition of the informal sector, and to identify more homogeneous groups for analytical purposes, as targets for social and economic policies and informal sector support programmes, and as a basis for comparisons of statistics over time and between countries. According to the 15<sup>th</sup> ICLS Resolution, the number of informal sector enterprises should at least be broken down by kind of economic activity and by type of informal sector enterprise (i.e. informal own-account enterprises vs. enterprises of informal employers). Other useful sub-classifications of informal sector enterprises include distinctions according to the following variables: type of work place (e.g. home of the enterprise owner, other fixed location, no fixed place); location (urban vs. rural areas); number of persons engaged; type of ownership (individual ownership, household ownership, business partnership with members of other households); relation with other enterprises (independent producers vs. producers working under subcontracting arrangements for other enterprises). In addition, it may be useful to sub-classify informal own-account enterprises according to the composition of their work force, distinguishing one-person units from two-and-



more person units and, among the latter, users of occasional hired labour from non-users of such labour.

## 7.2 Employment in the informal sector

The 15th ICLS Resolution stipulates that, as a minimum, statistics on persons employed in the informal sector should be broken down by status in employment and by kind of economic activity. In addition, the Resolution mentions a number of other variables as being useful for the sub-classification of persons employed in the informal sector. These include: sex; age; marital status; relationship to the household reference person; migration characteristics; educational attainment; reason for working in the informal sector; occupation; hours of work; other jobs currently held in or outside the informal sector (see Section 2.3 above); nature of employment (e.g. permanent, temporary, seasonal, casual); amount of income received; etc.

## 7.3 Informal employment

In line with the conceptual framework for measuring informal employment, informal jobs should be sub-classified by the status in employment of the job and by the type of production unit in which the job is undertaken (formal sector enterprise, informal sector enterprise, household). The 17<sup>th</sup> ICLS recognised that for purposes of analysis and policy-making, it may be useful to further disaggregate the different types of informal jobs, especially those held by employees. Paragraph 3 (6) of the 17<sup>th</sup> ICLS Guidelines suggests that such a typology and the corresponding definitions should be developed as part of further work on classifications by status in employment at the international and national levels. A strategy for developing a typology of atypical forms of employment, based on the International Classification of Status in Employment (ICSE-93), has been outlined by Mata Greenwood and Hoffmann (2002).

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