

# Statistical standards on the Informal economy: towards a revised framework

## INTRODUCTION

The first statistical standards on informality were adopted in 1993 by the 15th International Conference of Labour Statisticians (ICLS), in the resolution concerning statistics of employment in the informal sector. Ten years later, at the 17th ICLS in 2003, the boundaries of informality were broadened with the adoption of the Guidelines concerning a statistical definition of informal employment.

These statistical standards have been crucial for guiding countries in producing data on informal employment and the informal sector and estimates on informal employment can today be produced for more than 100 countries covering 90 percent of the world's employed population. Data on the informal sector and informal employment is needed for describing the structure of informality within countries and is linked to a number of key policy objectives such as reducing poverty, achieve gender equality, address decent work deficits, promote decent work and for formalizing the informal economy.

The increased experiences by countries to measure these concepts and the widespread use of statistics related to informality calls for a need to address the challenges inherent in the current standards and for providing stronger definitions and recommendations for data producers that can lead to a more effective measurement and increased harmonization between countries. In addition, it has become necessary to align the framework on informality to the Resolution concerning statistics on work, employment and labour underutilization (hereafter 19th ICLS resolution I) adopted at the 19th International Conference of Labour Statisticians (ICLS) and the Resolution concerning statistics on work relationships adopted at 20th ICLS to ensure coherency between the different statistical standards.

The need to update the current statistical standards on informality was discussed at the last ICLS in 2018 and the ILO received a strong mandate to initiate a revision with the objective to present a revised statistical standard for discussion at the 21st ICLS in 2023. This paper provides an overview of the expected structure of the new framework, new concepts likely to be introduced to clarify the statistical framework on the informal economy, as well as expected main changes in terms of scope and existing concepts. It builds on the *Report of the ILO working group for the Revision of the standards for statistics on informality* (ILO, 2022) and the *Statistics on the informal economy* report to the Tripartite Meeting of Experts in Labour Statistics (ILO, 2023) but updated to reflect the latest development. The proposal is still under discussion and will first be finalized at the 21st ICLS in 2023<sup>1</sup>.

### *The process of the revision*

To assist in the development of proposals to replace the current standards, the ILO established a working group comprising members from national statistical offices and ministries in more than 40 countries across all regions, international organizations and workers' and employers' organizations. The working group met between 2019 and 2022 and managed to make substantial progress in developing a draft of a new resolution concerning statistics on the informal economy. To widen the consultation process and obtain feedback on the proposals developed by the working group, the ILO conducted a series of regional consultations of labour statisticians, in all regions of the world, during 2022. In addition, the proposal was discussed at the UN statistical commission at its 53rd session in March 2022 and at the Tripartite Meeting of Experts in February 2023, as part of the preparation of the 21st ICLS in 2023.

The working group have been in close collaboration with the Joint Informal Economy Task Team established by the UNSD and the IMF as part of the upcoming revision of the SNA. This collaboration has been essential

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<sup>1</sup> The draft resolution can be accessed in the Annex to the report for the Tripartite Meeting of Experts at: [Tripartite Meeting of Experts in Labour Statistics on the Revision of the Standards for Statistics on Informality \(ilo.org\)](https://www.ilo.org/public/eng/mediacentre/2023022301.htm)

to ensure coherence and alignment between the statistical standards of the ILO and the treatment of the informal economy within the SNA.

## The structure of the framework of informal economy

To create a comprehensive statistical framework of the informal economy that can reflect informality from the two slightly different, but linked, perspectives of economic units and persons/workers the underlying theoretical concept of *informal productive activities* will be introduced. This is defined as *all productive activities carried out by persons and economic units that are – in law or in practice – not covered by formal arrangements*. The concept contributes to the explanation of the statistical meaning of informality and creates a linkage between the different statistical components of the framework. Based on this, the concept of the informal economy can be understood as *including all informal productive activities of persons or economic units*.

Such a broad definition of the informal economy expands the current boundaries of informality by also recognizing that all activities within the SNA general production boundary can be considered part of the informal economy. While the measurement of informal employment, as defined in the 19<sup>th</sup> ICLS standards, will remain central to the new framework the new broader scope of the informal economy and informal productive activities will enable the compilation of statistics that go beyond the core concepts of the informal sector and informal employment which would, for example, be needed for the compilation of statistics on all informal productive activities within the SNA production boundary as an input to GDP. In addition, it provides the possibility to identify essential groups of workers outside employment but within the informal economy to complement the core concept of informal employment.

The broad concept of informal economy creates a need to introduce a more focused complementary concept restricted to the core concepts that would be main targets for formalization and therefore have a strong policy relevance. This is captured by the more restricted concept of *informal market economy* proposed to be defined as *all production in the informal sector and all productive activities of workers in employment that are not – in law or in practice – covered by formal arrangements*.

The underlying concept of informal productive activities and the overarching concept of the informal economy and informal market economy sets the statistical boundaries and structures the different components of the framework, as well as enabling the integration of the different paid and unpaid forms of work in the framework.

## The definition of the formal sector, informal sector and household own-use and community sector

The three different sectors i.e., *the formal sector*, *the informal sector* and the *household own-use and community sector* are defined based on the two underlying dimensions, *the intended destination of the production* that reflects whether the production is mainly intended for the market with the purpose of generating a profit, and *the formal status of the economic unit* that reflects whether the unit is formally recognized by government authorities as a distinct producer of goods or services and thus covered by formal arrangements. Based on the two dimensions the three sectors can be mutually exclusively defined as:

***The formal sector:*** comprising economic units that are formally recognized as distinct producers of goods and services for the consumption of others and whose production is mainly intended for the market with the purpose of generating an income or profit, for a non-profit purpose, or non-market production for use by other economic units.

***The informal sector:*** comprising economic units whose production is mainly intended for the market with the purpose of generating income and profit, but that are not formally recognized as producers of goods and services distinct from the own-use production of the owner-operators' household.

***Household own-use and community sector:*** comprising economic units that are not formally recognized as producers of goods and services for the consumption of others, whose production is either mainly for the household's own final use, or for the use of other households, without the purpose of generating income and profit for the producing household or households or the members of the non-formal non-profit organization.

### *Changing the scope of the informal sector*

The change of the threshold of market production from *some* production being intended for the market (which is the threshold used in the current informality standards) to “mainly” is an important alignment of the concept of market production with the definitions used in the SNA and the 19th ICLS resolution I and excludes own-use production work from the informal sector and place it within the household own-use and community sector.

The current definition of the informal sector includes the option to exclude agriculture activities from the informal sector. However, considering the importance of recognizing and measure informal agriculture production mainly intended for the market as part of the informal sector, the proposal is to remove this option from the new standards. This is in line with the current practice of most countries and would contribute to a more comprehensive measurement of the informal sector as well as informal employment.

### *Strengthening the operational criteria for defining the informal and formal sector*

The proposed operational criteria for defining the formal status of the economic unit are to a large extent built on the already existing criteria used for defining the informal sector. However, several clarifications around the different criteria are proposed. This includes removing size of the economic unit as a recognized main criterion for defining the informal sector, exclude the possibility for informal enterprises to have formal employees, clearer recommendations for what countries should consider when operationalizing the key criterion of registration, and to link the criterion of having a complete set of accounts to having accounts for tax purposes. These changes are intended to strengthen the criteria by more strongly connect them to the underlying concept of informal productive activities and to increase harmonization between countries.

### *Household own-use and community sector*

The household own-use and community sector completes the categorization of economic units. Firstly, it includes productive activities produced by the household or undertaken by family members outside the household that are mainly intended to be consumed by the household or by family members living outside the household. Secondly, the sector also includes direct volunteer work, which refers to non-market production by one household for the use of other households, as well as non-formal non-profit organizations.

## **Informal work**

*Informal work* defined as *all productive activities performed by persons that are – in law or in practice - not covered by formal arrangements* is a broad overarching concept that reflects the informal economy from the perspective of persons/workers. It would include productive activities defined as employment that are in law and in practice not covered by formal arrangements put in place to stipulate the responsibilities, obligations and protection of the economic units and the workers. In addition, the broad concept of informal work would include informal productive activities carried out with a different intention than to generate pay or profit. This would include own-use production work, volunteer work, unpaid trainee work and other work activities that are not covered by formal arrangements such as regulations and provisions that promote or facilitate the work and protect and regulate the actions and functions of the worker.

## **Informal employment**

Based on the underlying concept of informal productive activities and the definition of informal work, *informal employment*, can be defined as *any activity carried out by a person to produce goods or provide services for pay or profit that is not effectively covered by formal arrangements*. Informal employment would consist of activities in relation to informal jobs that are not effectively covered by formal arrangements such as commercial laws, procedures to report economic activities, labour laws and social security laws aiming at regulating and protecting the economic units and workers. This creates a link between the definition of informal employment, the definitions of informal jobs and the International Classification of Status in Employment as defined by ICSE-18, due to that the definition of informal jobs needs to be in relation to the type of job held by the person.

For independent workers, the definition of informal-/formal jobs follows from the categorization of the economic unit owned and operated by the independent worker. As can be seen in table 1 this implies that independent workers have a formal job if their enterprise is a formal economic unit in and an informal job if they own and operate an informal enterprise. This link is to some extent less direct for dependent workers. Dependent workers i.e., dependent contractors, employees and contributing family workers have informal jobs when categorized in the informal sector but may have informal or formal jobs in the formal sector. In addition, employees can also have informal/formal jobs working for a household.

Table 1. Status in employment informal- formal job, sector

Sector of the economic unit for which the work is carried out	Job by status in employment								
	Independent workers (Employers, own-account workers)			Dependent workers					
	Owner-operators of corporations	Independent workers in household market enterprises		Dependent contractors*		Employees		Contributing family workers	
	Formal	Informal	Formal	Informal	Formal	Informal	Formal	Informal	Formal**
Formal sector				1	*	2		3	
Informal sector		4		5		6		7	
Household own-use and community sector						8			
<p>Note: Cells shaded in dark blue refer to jobs, which, by definition, do not exist in economic units located in the specific sector. Cells shaded in light blue refer to formal jobs. Informal employment consists of the informal jobs in cells 1–8.            *The sector of dependent contractors does not reflect the sector of the economic unit on which they depend but their formal status in relation to the legal administrative framework of the country.            **The existence of formal jobs among contributing family workers carrying out work for an economic unit in the formal sector depends on the national context</p>									

#### *Strengthening the definition of informal/formal jobs for employees*

The definition of informal/formal jobs for employees in the current standards includes a relatively high degree of flexibility regarding how countries can operationalize the definition. Providing more clear recommendations for which criteria countries should prioritize is therefore essential to contribute to an increased harmonization between countries. At the same time, it is necessary to retain a certain degree of flexibility to create space for countries to develop effective operationalization's that take national labour laws and social protection systems into account.

The proposal is to build on the common ground across countries who tends to favor the use of *employers' contribution to social insurance, access to paid annual leave and paid sick leave* by recognizing that *employer's contribution to social insurance* should be a prioritized criterion while access to *paid annual leave* and *paid sick leave* are two relevant criteria for defining informal and formal jobs for employees. Depending on country context, these criteria can be further supported by additional national criteria if deemed useful.

#### *The integration of dependent contractors*

“Dependent contractors” is a new category in ICSE-18 that was introduced with the 20<sup>th</sup> ICLS resolution concerning statistics on work relationships (ILO, 2018). They are defined as workers with commercial agreements that are employed for profit who are dependent on another entity that exercises control over their activities, and that directly benefits from the work (ILO, 2018, paragraph 35). The integration of dependent contractors in the framework is an essential alignment to ICSE-18.

The proposal is that registration of an enterprise owned by the dependent contractor and registration of the dependent contractor for tax are to be used as criteria for categorizing the sector for dependent contractors and therefore also form part of the definition of informal and formal jobs. If the dependent contractor has a formal enterprise or is registered as a worker for tax purposes, then the dependent contractor can be considered as formally recognized and therefore part of the formal sector. If this is not the case, however, then no formal recognition of the enterprise or the worker exists and the worker is categorized in the informal sector.

Dependent contractors categorized in the informal sector i.e., they do not have a formal enterprise and is not registered for tax, would clearly have informal jobs as these would not be formally recognized by the legal administrative framework of the country and would have no coverage of formal arrangements. Dependent contractors in the formal sector, however, might have some coverage of formal arrangements through their registration. The formal arrangements that come with registration (either of an enterprise or in relation to tax only), would however, differ depending on the specific country system. In countries where there is a direct link between registration and a coverage of formal arrangements such as a mandatory social insurance, registration would be sufficient for defining the job as formal as it would imply a coverage of

formal arrangements. In countries where no such direct link exists, registration and contribution to voluntary social insurance can be used as an additional criterion for defining the job as formal to ensure that having a formal job for dependent contractors comes with a coverage of formal arrangements.

#### *Operational definition of informal and formal jobs for contributing family workers*

According to the current definition of informal employment, contributing family workers, by default, have informal jobs due to the informal nature of their jobs. This practice would be relevant to maintain due to that many countries would not have any formal arrangements in place for contributing family workers such as the possibility to register the worker, contribute to social insurance and providing access to employment benefits. At the same time there are countries (even if likely to be few) that have implemented formal arrangements targeting this group. In these countries it would be relevant to allow for the possibility for contributing family workers to be considered to have formal jobs if they carry out work for a formal family business, their job is registered, and they have an effective access to the formal arrangements.

#### **Informal productive activities within formal jobs and formal economic units**

The concept of *partly informal productive activities* is proposed to be a complementary concept to the core concept of informal employment that, depending on the country context, would be of relevance to estimate. Partly informal productive activities in relation to formal jobs would include situations where a person has a formal job in which parts of the work activities are covered by formal arrangements while other parts are not (e.g., when part of the work is undeclared, not covered by social protection and employment benefits.).

### **Informality and the unpaid forms of work**

The underlying concept of informal productive activities would potentially include all activities defined as work within the SNA production boundary and therefore not only include informal productive activities in relation to employment but also in relation to own-use production work, volunteer work, unpaid trainee work and other work activities. The concept of informal work needs to be understood as a broad reference concept. The intention would not be for countries to derive estimates on all informal work and its different components, i.e., informal volunteer work, informal own-use production work, etc. Such data would not be meaningful to inform policies, considering that the default situation for forms of work other than employment is likely to be informal.

However, the recognition that the dichotomy of informality and formality can exist in relation to the different forms of unpaid work can be viewed as an important recognition in itself. It creates the possibility to, depending on country context and need, assess the outreach of any formal arrangements put in place to facilitate and protect specific types of unpaid work. It also meets the need of the SNA to have a comprehensive estimation of all informal productive activities as an input to GDP. In addition, the concept of informal work creates the space for the statistical identification of essential categories of informal unpaid work that are of special statistical interest to measure with some regularity, to complement the concept of informal employment. These essential categories would include subsistence food-stuff producers and unpaid trainees. Two important groups that previously were included in the concept of informal employment but are now excluded from employment.

#### **Providing further guidance on statistical definitions of informal/formal unpaid work**

While formal arrangements in relation to employment is a relatively clear concept, this becomes more challenging in relation to the different forms of unpaid work. In addition, there is only limited experience among national statistical offices in establishing informality/formality in relation to work other than employment. Taking this situation into account the way forward seems to be to create flexible definitions, linked to the underlying concept of informal productive activities that points in the direction of how informality/formality can be statistically understood in relation to the different unpaid forms of work.

To introduce flexible definitions will allow countries and other data collectors to further elaborate how informality should be statistically understood and operationally measured depending on the specific objective and data need and by that gain valuable experience. It can be viewed as a first important step to provide statistical standards on informal work in relation to the unpaid forms of work that ensures that the framework is sufficiently robust to respond to a possible increased policy interest in formal arrangements in relation to these type of activities beyond ensuring the current data need on the essential categories of informal unpaid work.

## The indicator framework

While the dichotomy of informality and formality in relation to statistics on the informal economy, there is still a strong need to provide more granular data that gives a better understanding of the situation of informal and formal workers and enterprises to further support the understanding and consequences of informality as well as to better inform the policy discussion. To meet this need, an indicator framework is being developed to support the new resolution. The indicator framework is organized around five different dimensions, *extent of informality*, *structure of informality*, *decent work deficits*, *contextual vulnerability* and *other structural factors*. Each dimension includes a set of indicators. While some of the most essential key main indicators will be included in the resolution many of the indicators will be included in the supporting indicator framework.

## Improved data collection tools and recommendations

In parallel with the development of the proposal, work has been carried out with the objective of improving data collection tools and recommendations. A series of cognitive and quantitative tests has been conducted within the Engendering informality statistics project funded by the Bill and Melinda Gates Foundation. Additional tests are expected to be carried out in two Arab States as part of the Ford Foundation project Developing labour statistics with a focus on informality in the Arab countries.

The projects aim to enhance the generic labour force survey questionnaire, so it accommodates the changed standards and offers new questions that respond to changes in data needs, particularly those relevant to gender and informality. The objectives of this testing are to (a) explore identification of informality in an unbiased and comprehensive way; (b) reveal which questions and question sequences of the tested alternatives are most effective and efficient in collecting data on informal employment and informal enterprises; (c) generate ideas for new questions that respond to changes in data needs, and (d) produce evidence to support further development of robust standards and methods for the production of informality statistics

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