

# **Informality – Definitions and Measures**

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# Concepts




- Informal sector: enterprise-based.
- Informal employment: job-based.

# **Conceptual framework: Employment in the informal economy**

| Production units            | Informal jobs | Formal jobs |
|-----------------------------|---------------|-------------|
| Informal sector enterprises | A             | B           |
| Other units of production   | C             | D           |

|   |                  |
|---|------------------|
| <b>Employment in the informal sector:</b>               | <b>A + B</b>     |
| <b>Informal employment:</b>                             | <b>A + C</b>     |
| <b>Informal employment outside the informal sector:</b> | <b>C</b>         |
| <b>Employment in the informal economy:</b>              | <b>A + B + C</b> |

# **ICLS recommendations: Informal sector and informal employment**



- **Resolution concerning statistics of employment in the informal sector (15th ICLS, 1993)**
- **Guidelines concerning a statistical definition of informal employment (17th ICLS, 2003)**

## **15th ICLS: Definition of employment in the informal sector**



**All jobs in informal sector enterprises, or 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.**

# **15th ICLS: Criteria for defining informal sector enterprises (1)**




- **Household (i.e. privately owned) unincorporated enterprises (excluding quasi-corporations) owned by individual household members, several members of the same household, or members of different households:**
- **Not constituted as separate legal entities independently of their owners, and no complete sets of accounts available to separate financially the production activities of the enterprise from the other activities of its owner(s).**

## **15th ICLS: Criteria for defining informal sector enterprises (2)**



- **At least some of the goods or services produced are meant for sale or barter.**
- **Engaged in non-agricultural activities, including secondary non-agricultural activities of enterprises in the agricultural sector.**
- **Note: The recommendation to exclude agriculture from the scope of the IS, and measure it separately, was made for practical data collection reasons, not for conceptual ones.**

## **15<sup>th</sup> ICLS: Criteria for defining informal sector enterprises (3)**



- Establishment size in terms of employment below a certain threshold (to be determined by countries themselves; Delhi Group: less than 5 employees, for international reporting),
- and/or enterprise not registered under specific forms of national legislation (factories' / commercial acts, tax / social security laws, professional groups' regulatory acts, etc.) as distinct from local regulations for issuing trade licenses or business permits,
- and/or employees (if any) of the enterprise not registered.



# **Criticism of the informal sector concept**



- The term 'sector' suggests homogeneity of the units included, while in reality the IS comprises a rather heterogeneous set of enterprises.
- In common language, the term 'sector' is used to refer to 'branch of economic activity (industry)'.
- The dichotomy 'formal-informal' suggests a dualism of the economy/labour market, while in reality there is a continuum.
- An enterprise-based definition is unable to capture all aspects of the increasing so-called «informalisation» of employment.

# **Delhi Group (5<sup>th</sup> Meeting, 2001)**




- « The definition and measurement of employment in the informal sector
- need to be complemented
- with a definition and measurement of informal employment. »

# Informal employment: Relevance



- Informal employment was identified by the Tripartite ILO Meeting of Experts on the Measurement of Decent Work (Geneva, 8-10 September 2008) as one of 18 main decent work indicators.
- Informal employment has been proposed as an additional indicator for monitoring of the Millennium Development Goal 3 (Promote gender equality and empower women):
- 'Gender differences in the structure of employment'.

# 17th ICLS: Conceptual framework for informal employment (IE)



- Purpose: Relate enterprise-based concept of employment in the IS in coherent & consistent manner with a broader, job-based concept of IE.
- Basis: Employed persons hold jobs having various job-related characteristics, which are undertaken in production units (enterprises) having various enterprise-related characteristics.
- Observation unit for employment: Jobs rather than employed persons (reason: existence of multiple jobholding).
- Result: Total employment classified by (i) type of production unit and (ii) type of job.

| Production<br>units by type                   | Jobs by status in employment |        |           |        |                                   |           |        |                                       |        |
|---|------------------------------|--------|-----------|--------|-----------------------------------|-----------|--------|---------------------------------------|--------|
|   | Own-account workers          |        | Employers |        | Contributing<br>family<br>workers | Employees |        | Members of producers'<br>cooperatives |        |
|   | Informal                     | Formal | Informal  | Formal | Informal                          | Informal  | Formal | Informal                              | Formal |
| Formal sector<br>enterprises                  |                              |        |           |        | 1                                 | 2         |        |                                       |        |
| Informal sector<br>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.

# Production units by type



- Formal sector enterprises: corporations (incl. quasi-corporate enterprises), non-profit institutions, government units (incl. unincorporated enterprises owned by government), and those private unincorporated enterprises producing goods or services for sale or barter which are not part of the IS.
- Informal sector enterprises: as defined by 15th ICLS, but excluding households employing paid domestic workers (as recommended by Delhi Group).
- Households: households producing goods exclusively for their own final use, and households employing paid domestic workers.

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

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# **Jobs by type**



- **1. Status in employment (ICSE-93): own-account workers, employers, contributing family workers, employees, and members of producers' cooperatives.**
- **Breakdown by status in employment: needed for definitional purposes and considered useful for analytical and policy-making purposes.**
- **2. Nature of job: informal vs. formal.**



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

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(b) Households producing goods exclusively for their own final use and households employing paid domestic workers.

# Type of cells



- Dark grey: jobs which, by definition, do not exist (e.g. contributing family workers in household non-market production units).
- Light grey: formal jobs (e.g. employees holding formal jobs in formal sector enterprises).
- White: informal jobs.

| Production<br>units by type                   | Jobs by status in employment |        |           |        |                                   |           |        |                                       |        |
|---|------------------------------|--------|-----------|--------|-----------------------------------|-----------|--------|---------------------------------------|--------|
|   | Own-account workers          |        | Employers |        | Contributing<br>family<br>workers | Employees |        | Members of producers'<br>cooperatives |        |
|   | Informal                     | Formal | Informal  | Formal | Informal                          | Informal  | Formal | Informal                              | Formal |
| Formal sector<br>enterprises                  |                              |        |           |        | 1                                 | 2         |        |                                       |        |
| Informal sector<br>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.

## **17<sup>th</sup> ICLS: Components of informal employment (1)**



- Own-account workers and employers employed in their own informal sector enterprises (Cells 3 & 4): informal nature of jobs determined by characteristics of the enterprise.
- Members of informal producers' cooperatives, i.e. cooperatives not formally established as legal entities, etc. (Cell 8): informal nature of jobs determined by characteristics of the cooperative.

## **Components: Informal employment (2)**



- Own-account workers engaged in production of goods exclusively for own final use by their household (e.g. subsistence farming, do-it-yourself construction of own dwellings), if considered employed according to the 13th ICLS (1982) definition of employment (Cell 9).
- Contributing family workers working in formal or informal sector enterprises (Cells 1 & 5): no written employment contracts; employment not subject to labour legislation, social security regulations, collective agreements, etc.

## **Components: Informal employment (3)**



- **Employees holding informal jobs, whether employed by formal sector enterprises, informal sector enterprises, or as paid domestic workers by households (Cells 2, 6 & 10).**
- **Note: Definition of informal employee jobs represents major new element of the guidelines.**

## 17th ICLS: Definition of informal jobs of employees



- 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.).
- Note: Definition covers (i) *de jure* informal jobs and (ii) *de facto* informal jobs.

# **17th ICLS: Reasons for informal jobs of employees**



- **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);**
- **Employment by unincorporated enterprises or by persons in households;**
- **Employee's place of work is outside the premises of the employer's enterprise (e.g. outworkers without employment contract);**
- **Jobs, for which labour regulations are not applied, not enforced, or not complied with for other reasons.**



# **Operational criteria used to define informal jobs of employees**



- **Lack of coverage by social security system**
- **Lack of entitlement to paid annual or sick leave**
- **Lack of written employment contract**
- **Casual/temporary nature of work**

# **ILO: Collection and dissemination of data on informal sector/employment**



- Database containing national statistics on employment in the informal sector and related methodological information for 67 countries (established in 1998).
- Database containing national statistics on informal employment and related methodological information for 12 countries (established in 2005).
- Dissemination: KILM 7, ILO Compendium of official statistics on employment in the informal sector (2002), Statistics on employment in the informal sector and informal employment (James Heintz, 2007).
- 2008-2009 (subject to availability of resources): New round of updates; incorporation in LABORSTA; desirability to have time series data.


# **Factors affecting the international comparability of data**



## **Differences in:**

- **survey years and periods;**
- **data sources;**
- **geographic coverage;**
- **branches of economic activity covered (e.g. in/exclusion of agriculture);**
- **criteria to define the IS or IE;**
- **cut-offs used;**
- **treatment of specific groups (e.g. paid domestic workers, professionals and technicians, producers of goods for own final use);**
- **inclusion of second jobs.**

## **Decent work and the informal economy (ILC 2002): Para. 37 (n) of Conclusions**



- The ILO should assist member States to collect, analyse, and disseminate consistent, disaggregated statistics on the size, composition and contribution of the informal economy that will help enable identification of specific groups of workers and economic units and their problems in the informal economy.