



Department of Statistics

Working Group for the Revision of the standards for statistics on informality
Geneva, October 2019

Discussion paper

Issues to be addressed in the revision of the standards for statistics on informality¹

¹ Prepared by Michael Frosch, Senior Statistician, ILO Department of Statistics with assistance from Caroline Schimanski and inputs from David Hunter, Monica Castillo, Manpreet Singh, Yves Perardel, Florence Bonnet, Elisa Benes, Kieran Walsh. The views expressed are those of the author.

Table of Contents

Abbreviations and Acronyms	4
1 Overview of the issues to be addressed, the framework of informality and timeframe for the revision.....	5
1.1 Introduction and timeframe	5
1.2 Uses of the standards for statistics on informality	6
2 Data availability, an overview	7
3 Recent changes in international labour statistics standards	9
3.1 Resolution concerning statistics of work, employment and labour underutilization	9
3.1.1 The boundary of work.....	9
3.1.2 Concepts of job and work activity.....	10
3.1.3 The five forms of work	10
3.2 Resolution concerning statistics on work relationships	11
4 15th ICLS resolution concerning statistics of employment in the informal sector.....	13
4.1 The concept of informal sector.....	14
4.2 The operational definition of informal sector	14
4.3 Employment in the informal sector	15
4.4 Treatment of particular cases	15
5 The definition of the informal sector.....	16
5.1 Production units in the informal sector.....	16
5.2 The boundary of market production	18
5.3 Main criteria for defining the informal sector	22
5.3.1 Size versus registration	24
5.3.2 Having a complete set of accounts	27
5.3.3 The “ILO approach” for defining informal sector as part of measuring informal employment.....	28
5.3.4 Formal employment in the informal sector.....	31
5.4 The need for three types of “sectors”.	32
5.5 Different forms of work in the informal sector	33
5.5.1 Informal sector and agriculture	34
6 17 th ICLS guidelines concerning a statistical definition of informal employment.....	36
6.1 Conceptual definition of informal employment	36
6.2 Operational definition.....	37
7 The definition of an informal job and informal employment.....	38
7.1 The conceptual definition of an informal job and informal employment	38
7.2 ICSE-18 and informal jobs	40

7.3	Independent workers and informal jobs	40
7.4	Dependent contractors.....	41
7.4.1	The boundary between informal employees and dependent contractors.....	43
7.5	The operational criteria for defining informal jobs among employees.....	44
7.5.1	Main criteria used by countries	46
7.5.2	Combining the criteria	49
7.6	Contributing family workers	52
8	A future framework	52
8.1	Concepts.....	52
8.1.1	A single conceptual starting point	52
8.2	The three types of production units and the informal sector	54
8.3	Informal work.....	56
8.4	Boundaries of informal work and informal work relationships.....	56
8.4.1	Broad conceptual framework	57
8.4.2	An overview of a broad conceptual framework for informality	59
8.4.3	Essential sub-categories of informal work/informal work relationships.....	60
8.4.4	Restricted conceptual framework.....	61
8.4.5	A dimensional approach	62
	63
9	Bibliography	66

Abbreviations and Acronyms

GDP	Gross domestic production
ICSaW-18	International classification of status at work 2018
ICSE-93	International classification of status in employment 1993
ICSE-18	International classification of status in employment 2018
ICSE-18-A	International classification of status in employment 2018 according to type of authority
ICSE-18-R	International classification of status in employment 2018 according to type of economic risk
ILO	International labour organization
ICLS	International conference of labour statisticians
OECD	Organisation for economic co-operation and development
SDG	Sustainable development goals
SNA	System of National accounts

1 Overview of the issues to be addressed, the framework of informality and timeframe for the revision

1.1 Introduction and timeframe

1. This paper outlines the key issues that needs to be addressed in relation to the revision of the current international standards for statistics on informality to be discussed at the first meeting of the Working Group on the Revision of the standards for statistics on informality. The second chapter gives a brief overview of the current data availability. The third chapter describes the changes in the labour statistical standards that took place during the 19th International Conference of Labour Statisticians (ICLS) with the adoption of the *resolution I concerning statistics of work, employment and labour underutilization* (19th ICLS resolution I) and the 20th ICLS with the adoption of *Resolution I concerning statistics on work relationships*. The fourth chapter describes the *Resolution concerning statistics of employment in the informal sector* and the sixth chapter the *Guidelines concerning the statistical definition of informal employment*. Chapter five and seven includes a description of country practices for measuring the different concepts and identification of areas that need to be addressed both in the light of country practices as well as due to the changes in the labour statistical standards. The eight chapter discuss how a new framework can be structured and how it can be related to the different forms of work as defined by the 19th ICLS resolution I.
2. The standards for statistics on informality are defined in the Resolution concerning statistics of employment in the informal sector (ILO, 1993a) adopted at the 15th ICLS, which defines the informal sector and employment in the informal sector, and in the Guidelines concerning the statistical definition of informal employment endorsed at the 17th ICLS in 2003 (ILO, 2003), which defines the concept of informal employment.
3. The three main statistical concepts defined in the standards for statistics on informality i.e. *informal sector*, *employment in the informal sector* and *informal employment* are different in scope and objectives and refer to different statistical units. At the same time, they are complementary and mutually reinforcing both from the point of view of statistical definition and measurement of the different concepts, as well as from an analytical and policy perspective. The strong linkage between the three informality concepts and their complementary nature are recognized in the non-statistical concept of the informal economy. Informal economy is the core concept in *the Resolution concerning decent work and the informal economy* (ILO, 2002) and in the *Recommendation 204 concerning the transition from the informal to the formal economy* (ILO, 2015) where the term informal economy is used as a concept to capture all relevant components of informality.
4. The development of the statistical framework of informality has been an incremental process. As a result, despite the good progress there are some flexibilities, gaps and inconsistencies between and within the different concepts and definitions which impact on our capacity to produce comprehensive, coherent and internationally comparable data on informality. The ILO presented a discussion paper at the 20th ICLS (ILO, 2018a) that highlighted the issues that needed to be addressed in a revision of these standards. There was a strong consensus at the ICLS that a revision should be initialized with the aim of

addressing the known problems with the current statistical standards, as well as aligning them with the latest developments in international standards for labour statistics. The 19th ICLS resolution I had a profound impact on the standards for statistics on informality through expanding the boundaries for labour statistics beyond employment to include all forms of work, as well as narrowing the concept of employment (ILO, 2013a). In addition the adoption at the 20th ICLS of a revised International Classification of Status in Employment (ICSE-18) as part of the *Resolution I concerning statistics on work relationships* (ILO, 2018b) impacts on the concept of informal employment which is defined on the basis of the classification of status in employment as defined by the previous ICLS standards on status in employment (ICSE-93).

5. It is proposed that the revision will lead to the replacement of the existing standards of informality with a coherent set of statistical standards which conceptually and operationally define the different concepts necessary for measurement of work and economic activity the informal economy. The new standards should be based on current definitions and country practices, aligned to the most recent labour market standards and contribute to increased global coverage and harmonization of statistics on informality between countries. These standards would need to be presented to the 21st ICLS in the form of a draft resolution for discussion, amendment and adoption.

1.2 Uses of the standards for statistics on informality

6. In countries with a high share of informality, statistics on informal employment and on employment in the informal sector are fundamental to understand the structure of the labour market and the economic and personal risks that workers are exposed to. Employment, and labour underutilization therefore needs to be supplemented with the dimension of whether the employment is informal or formal in order to create a more complete picture of the characteristics of the jobs in the labour market as well as of the situation for the workers.
7. Statistics on the size of the informal sector, its composition, production inputs (including labour inputs) and outputs are necessary to create exhaustive estimates for the purposes of national accounts such as estimation of value added, the construction of input-output tables, estimates on the contribution of informal sector activities to gross domestic product (GDP) and the productivity of the informal sector. The quantification of the informal sector and data on its characteristics are also needed to provide information for designing, implementing, monitoring and analysing macro-economic policies and to assess their impact.
8. Informal employment and employment in the informal sector are key dimensions for designing and evaluating government policies and programs aimed at promoting employment and formalizing informal jobs. This includes a focus on small and micro-enterprises in the informal sector as a potential source of employment creation.
9. Providing information on informal employment and the informal sector is also essential for designing and evaluating economic and social policies, for improving working conditions and for poverty reduction. As recognized in the Resolution concerning decent work and the informal economy, workers in the informal economy are characterized by a high degree of vulnerability and poverty. (ILO, 2002, para. 1). Information on the informal sector and

informal employment thus enables governments to create policies to address these decent work deficits and to evaluate the economic and social impact due to macro-economic changes such as the impact of economic cycles or long term changes in the level and composition of employment.

10. Informal employment and employment in the informal sector are also particularly important for policy-oriented monitoring of gender issues. One of the important conclusions of the ILO publication *Women and Men in the informal economy: A Statistical Picture* (ILO, 2018c) is that women are more often found in the most vulnerable forms of informal employment, for instance as domestic workers, home-based workers or contributing family workers (ILO, 2018c, Page 20-21,). Informal employment thus becomes an important dimension to understand and address the unequal role of women in employment. Informal employment is also linked to policies directed towards the situation of young people and older people. Both categories are overrepresented in informal employment (ILO, 2018c, Page 20-21,).
11. Following the inclusion of the indicator on informal employment in the Decent Work Measurement Framework in 2008, the importance of measuring informality was further highlighted when informal employment was adopted as one of the indicators in the 2030 Agenda for Sustainable Development in 2015. The inclusion of informal employment in the SDG framework as indicator 8.3.1 points to the high continuing relevance of the concept and the need for countries to regularly measure, monitor and address informal employment as part of achieving the SDG goal 8 to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

2 Data availability, an overview

12. As a preparation to the 20th ICLS, the ILO sent out a questionnaire to countries to collect information regarding their measurement and operational definitions of the informal sector and informal employment. Of the 107 countries that responded, 67 stated that informality had been measured to some extent at least once in the last 10 years, while 2 stated that indirect estimates had been produced. Household surveys are the most frequently used survey type for collecting the information. Only 3 countries stated that they had used another source such as mixed survey or an establishment survey for the last measurement.

Table 1. Direct measurement of informal employment and/or informal sector in the last 10 years, number of countries by region

Region	Have measured	Have not measured	Total responding countries	Total countries in the region
Africa	17	2	19	54
Americas	18	4	22	33
Arab States	5	1	6	12
Asia and the Pacific	10	6	16	39
Europe and Central Asia	17	27	44	51
Total	67	40	107	189
OECD	5	16	21	36

Source: ILO questionnaire 2018

13. The results are not representative due to non-response but it is plausible that they provide a reasonable estimate on the number of countries that have carried out direct measurement and that countries that did not respond to the questionnaire to a large extent comprise those that have not recently measured informality directly.
14. This is supported when assessing the microdata used for the publication of *Women and men in the Informal economy* (ILO, 2018c). The publication is based on processed microdata from different types of household surveys, such as labour force surveys and income and living conditions surveys between 2003 and 2016 for 114 countries. Not all of these countries included the collection of such data as measurement objectives and thus did not conduct direct measurement of informal employment. However, they did collect information that was sufficient to produce an estimate.
15. Based on the microdata assessment and the ILO questionnaire it seems that less than 40 percent of all countries globally have carried out a direct measurement of informality. Of the 114 countries for which an estimate of informal employment could be produced, 60 collected information regarding registration and/or bookkeeping. The inclusion of registration and/or keeping a complete set of accounts would typically only be done with the objective of identifying the informal sector as part of measuring, for example, informal employment. If this information was collected it can therefore be assumed that direct measurement has taken place.

Table 2. Data availability for informal employment, household surveys 2003-2016, number of countries by region

Region	Sufficient information to provide an estimate on informal employment	Included information regarding registration and/or bookkeeping	Total countries in the region
	Number of countries	Number of countries	Number of countries
Africa	33	21	54
Americas	19	15	33
Arab States	5	2	12
Asia and the pacific	17	13	39
Europe and Central Asia	40	9	51
Total	114	60	189

Source: ILO questionnaire 2018

16. Direct measurement seems to be especially low among developed countries. Only 5 of the 21 Organization for Economic Co-operation and Development (OECD) countries that responded to the questionnaire stated that they had measured informality directly in the last 10 years. At the same time developed countries do collect information that can be used to estimate informal employment. This indicates that at least some aspects of informality have relevance for these countries, even if the objective had not been to measure informality directly. The low coverage among developed countries might partly be a consequence of a general lack of awareness of how informality should be understood in the context of a developed country and of a perception that informality is a marginal phenomenon. There is therefore a need to further explore the relevance of informality in

the context of developed countries. Moreover, since informal employment is part of the SDG indicator framework, it should be measured and disseminated in all countries.

17. The need to increase global coverage and the direct measurement of informality points to the necessity to further develop and improve tools and recommendations for all the different stages in the collection of data and production of statistics on the informal sector and informal employment, as well as to ensure that the revised statistical standards meet the different needs and demands of countries with different labour market contexts.

3 Recent changes in international labour statistics standards

18. One of the main reasons why the standards for statistics on informality need to be revised is the changes in the standards for labour statistics that took place during the last two ICLSs. The statistical framework for informality is to a large extent built on the 13th ICLS resolution concerning statistics of the economically active population, employment, unemployment and underemployment (ILO, 1982) and on ICSE-93. Both standards have now been replaced with the 19th ICLS resolution I and the 20th ICLS resolution concerning statistics on work relationships, respectively. These changes have had a profound impact on the current statistical framework for informality and there is a strong need to align this framework with the current standards for labour statistics. It is therefore useful to provide a short overview of the “new” standards as background to the issues that need to be addressed in the revision.

3.1 Resolution concerning statistics of work, employment and labour underutilization

19. From the perspective of the statistical framework of informality the most important changes introduced with the 19th ICLS resolution I are:
 - a. the introduction of the concept of work which recognizes all productive activities inside the SNA general production boundary as being work;
 - b. the identification of the five different forms of work; and
 - c. the narrower definition of employment.

3.1.1 The boundary of work

20. The 19th ICLS resolution I defines work as “Any activity performed by persons of any sex and age to produce goods or to provide services for use by others or for own use ... irrespective of its formal or informal character or the legality of the activity”(ILO, 2013a, para. 6). It excludes activities that do not involve producing goods or services (e.g. stealing, begging), self-care (e.g. personal hygiene) and activities that cannot be performed on one’s behalf (e.g. sleeping, learning).
21. Work as a productive activity can be performed in any kind of economic unit. The concept of economic unit is aligned with the 2008 SNA and can be categorized into market units, non-market units and households producing (mainly) for own-final use:
 - I. Market units (i.e. corporations, quasi-corporations and household unincorporated market enterprises);

- II. Non-market units (i.e. government and non-profit institutions serving households);
- III. Households that produce for own final use.

22. It is further noted that household unincorporated market enterprises contain, as a subset, informal sector units (ILO, 2013a, footnote 2). In addition however, informal household market enterprises as currently defined would also constitute a subset of households that produce for own final use, that is, some of the production is for the market but the production is mainly for own final consumption.

3.1.2 Concepts of job and work activity

23. The concepts of job and work activity are defined as a set of tasks or duties performed by one person for a single economic unit. The term job is used in reference to employment while the term work activities refers to the statistical unit associated with forms of work other than employment (ILO, 2013a, para. 12(b)).

3.1.3 The five forms of work

24. The 19th ICLS Resolution I identifies five different forms of work. The intended destination of the production (mainly for own final use or mainly for use by others) and the type of transaction (with remuneration or without remuneration) are used as a conceptual starting point for the identification of the five forms of work.

25. *Own-use production work* is defined as the production of goods and services for own final use, where *own final use* is operationally defined as “production where the intended destination of the output is *mainly* for final use by the producer” (ILO, 2013a, para. 22 (d)).

26. Own-use production work includes the production of goods and the provision of services. The inclusion of services in own-use production work is one of the central elements which makes the scope of the concept of work broader than the previous concept of employment as defined in 13th ICLS Resolution I.

27. *Employment* is defined as “all those of working age who, during a short reference period, were engaged in any activity to produce goods or provide services for pay or profit” (ILO, 2013a, para. 27). The definition of employment has a stronger relationship with remuneration, thus narrowing the scope of the concept of employment compared to the previous one. The definition in 19th ICLS Resolution I excludes different forms of unpaid activities, such as own-use production of goods (including subsistence work), volunteer work producing goods, organization-based volunteering and unpaid trainee work, which were previously included in the concept of employment.

28. *Unpaid trainee work* is defined as “work performed for others without pay to acquire workplace experience or skills” (ILO, 2013a, para. 7(c)).

29. *Volunteer work* is defined as “non-compulsory work performed for others without pay” (ILO, 2013a, para. 7(d)) and includes the production of goods as well as services.

30. *Other work activities* is not defined but is a residual that completes the framework; for example, it could include unpaid community service ordered by the court or compulsory military service.

3.2 Resolution concerning statistics on work relationships

31. 20th ICLS Resolution I seeks to promote the coherence and integration of statistics from different sources on multiple characteristics of work relationships, the standards by providing:

- an overarching conceptual framework which defines the key concepts, variables and classification schemes required for statistics on work relationships;
- a revised International Classification of Status in Employment (ICSE 18);
- an International Classification of Status at Work (ICSaW-18) as a reference classification covering all forms of work;
- a set of cross-cutting variables and categories that support the derivation and analysis of the status at work categories and provide more detailed information on the degree of stability and permanence of the work;
- operational concepts, definitions and guidelines for the collection and compilation of statistics on status in employment and the cross-cutting variables.

32. Both ICSE-18 and ICSaW-18 are based on two dimensions: the type of authority the worker is able to exercise and the type of economic risk to which the worker is exposed. The detailed categories in the International Classification of Status in Employment (ICSE-18) can be grouped according to either of these dimensions and thereby create alternative dichotomies between, independent workers and dependent workers in the first case, and between workers in employment for profit and workers in employment for pay in the second case. ICSaW-18, however, can only be organized according to the dimension of type of authority (ILO, 2018b). ICSE-18 can be viewed as the core classification in the resolution, while the broader ICSaW-18 is an extension of ICSE-18. The categories marked with an asterisk in box 1 are categories included in ICSE-18.

Box 1
Classification of Status at Work (ICSaW-18)

Independent workers

1. Employers*
 - 11 – Employers in corporations*
 - 12 – Employers in household market enterprises*
 - 13 – Employers in own-use provision of services
 - 14 – Employers in own-use production of goods
2. Independent workers without employees*
 - 21 – Owner-operators of corporations without employees*
 - 22 – Own-account workers in household market enterprises without employees*
 - 23 – Independent workers in own-use provision of services without employees
 - 24 – Independent workers in own-use production of goods without employees
 - 25 – Direct volunteers

Dependent workers

3. Dependent contractors*
 - 30 – Dependent contractors*
4. Employees*
 - 41 – Permanent employees*
 - 42 – Fixed-term employees*
 - 43 – Short-term and casual employees*
 - 44 – Paid apprentices, trainees and interns*
5. Family helpers
 - 51 – Contributing family workers*
 - 52 – Family helpers in own-use provision of services
 - 53 – Family helpers in own-use production of goods
6. Unpaid trainee workers
 - 60 – Unpaid trainee workers
7. Organization-based volunteers
 - 70 – Organization-based volunteers
9. Other unpaid workers
 - 90 – Other unpaid workers

(Source: ILO, 2018b, para. 58) *Categories included in ICSE-18-A.

33. ICSE-18 has is based on similar concepts to the previous standard defined in ICSE-93. However, there are some important changes that have taken place:

- A new category of dependent contractors has been introduced;

- owner-operators of corporations are singled out as subcategories of employers and independent workers without employees (called own-account workers in ICSE-93);
- employees have four different subcategories; and
- members of producers' cooperatives no longer constitute a separate category.

34. *Dependent contractors* are a new category on the borderline between being employees and own-account workers in household market enterprises without employees. They are defined as workers employed for profit who are dependent on another entity that exercises control over their activities and that directly benefits from the work. The dependency may be operational as well as economic (ILO, 2018b, para. 35). The borderline situation of dependent contractors is also reflected in the resolution, which recognizes that two subgroups can be identified among dependent contractors: those who primarily provide labour to others and those who have committed significant financial or material assets to the unincorporated enterprise which they own and operate. (ILO, 2018b, para. 39). The first group would more likely share characteristics with employees, while the latter would typically be closer to own-account workers in household market enterprises without employees.

35. The cross-cutting variables are required to derive status in employment, or are essential or recommended analytical variables. *Job-dependent social protection coverage, access to paid sick leave and access to paid annual leave* are three essential cross-cutting variables that are important in their own right but also strongly related to the operational definition of informal employment among employees.

36. *Job-dependent social protection* is defined as “whether the person is entitled to social protection as the result of employment in a particular job. It therefore excludes ‘universal’ protection schemes that are not dependent on holding a job” (ILO, 2018b, para. 119).

37. *Access to paid annual leave* is defined as “the worker’s entitlement and ability to take paid time off granted by the employer or to be compensated for unused annual leave ... It is not sufficient to have a legal right to paid annual leave if the worker does not have access to it in practice” (ILO, 2018b, para. 122).

38. *Access to paid sick leave* is defined as “the worker’s entitlement and ability to take paid leave from employment due to personal sickness or injury. The paid sick leave should be dependent on the worker’s job and therefore excludes schemes that are not related to having a particular job ... It is not sufficient to have a legal right to paid sick leave if the worker does not have access to it in practice” (ILO, 2018b, para. 122).

4 15th ICLS resolution concerning statistics of employment in the informal sector

39. A short overview of the resolution concerning statistics of employment in the informal sector is useful before discussing the main issues that need to be addressed in relation to

the statistical definitions in the resolution. A more detailed description can be found in Room document 17 prepared for the 20th ICLS (ILO, 2018a).

40. The objective of the 15th ICLS resolution is to improve labour statistics and national accounts in countries where the informal sector plays a significant role. This objective reflects the dual purpose of the resolution that is to measure the informal sector as input to, for example, national accounts and to measure the labour supply in the informal sector which is also relevant from the perspective of labour statistics. The dual purpose is also recognized in the two main concepts in the resolution; informal sector and employment in the informal sector.

4.1 The concept of informal sector

41. The informal sector is conceptually defined on the basis of the characteristics of its production units. They share characteristics with household enterprises, as defined by the SNA, but their primary objective is to generate employment and income for the persons concerned. In addition, these units typically have a low level of organization and there is little division between labour and capital as factors of production.

4.2 The operational definition of informal sector

42. The operational definition of the informal sector can best be described as a residual approach. Different criteria are used to exclude production units that are formal, and the residual is then defined as being informal. The operational definition can be divided in two different steps. The first step aims to identify household market enterprises:

(a) A household market enterprise:

- i. is not a government unit or a non-profit organization;
- ii. is not an incorporated enterprise (not a separate legal entity);
- iii. does not have a complete set of accounts (not a quasi-corporation);
- iv. does have some production intended for the market;

43. The second step aims at identifying those household market enterprises that should be defined as informal. In this step countries can choose between using registration, size of the enterprise or both as criteria.

(b) For defining household market enterprises owned and operated by employers in the informal sector:

- size of the unit below a specified level of employment; and/or
- non-registration of the enterprise or its employees under specific forms of national legislation.

44. The size criterion is defined broadly in the resolution. It refers to the total number of employees, the total number of workers (including owners and contributing family workers) or all employees employed on a continuous basis. The upper size limit is decided by the country but should take into account relevant national legislation. In addition, the upper

size limit should also take account of size limits used, for example, in establishment surveys to avoid overlap.

45. Registration of the enterprise refers to registration under factories or commercial acts, tax or security laws, professional groups' regulatory acts, or similar acts, laws established by national legislative bodies. Registration of employees refers to whether their contract commits the employer to pay relevant taxes and social security benefits and whether the employment relationship is subject to standard labour legislation.

4.3 Employment in the informal sector

46. The concept of employment in the informal sector becomes straight forward once the informal sector has been defined and identified. It includes all employed persons who during a given reference period had at least one job in an informal household market enterprise.

4.4 Treatment of particular cases

47. Some issues were recognized as particularly challenging from a conceptual and practical point of view in the resolution. The existence of multiple informal household enterprises within the same household is one such issue. The resolution takes a pragmatic view on this issue. ISIC should be taken into consideration when defining whether the activities carried out in a household should be regarded as one or separate enterprises. If this is not feasible then multiple informal household enterprises can exist in the same household if that is the perception of the household members. For example, if one person in the household is working with repairing motorbikes and another person is selling goods at a market then this could be defined as two different enterprises if the two household members perceives it as two different businesses. However, different activities carried out by the same household member or a group of household members should be regarded as one household enterprise irrespectively of the diversity of the activities carried out. This would include the case if the two household members were both involved in repairing motorbikes and selling the goods at the market.
48. The possibility for countries to exclude household enterprises engaged in agricultural activities is also referenced as a treatment of particular cases. This flexibility is not based on conceptual reasons but due to practical reasons of data collection. The main arguments were that the inclusion of household enterprises engaged in agricultural activities will increase the cost of conducting surveys of the informal sector, and other data sources, specialized in the agriculture sector, would typically be better suited for covering agriculture activities.
49. The inclusion of domestic workers is also acknowledged as a particular case. Domestic workers can either be included or excluded from the informal sector depending on national circumstances. This ambiguous treatment of domestic workers is later clarified in the 17th ICLS resolution that introduces a third type of production unit outside the dichotomy of formal sector, informal sector consisting of households producing exclusively for own final use.

5 The definition of the informal sector

50. In this chapter we discuss problems and options with respect to the conceptual and operational definitions of the informal sector.

5.1 Production units in the informal sector

51. A discussion regarding the reference unit and its boundaries might seem academic and conceptual. However, a clear definition and understanding of the unit to be measured is essential and will impact on the number of informal units a household or a person can have, as well as on the specific production activities that are to be linked to a particular unit. The definition and boundary of the unit also has an impact beyond the measurement of the informal sector. The concept of job is attached to the economic unit for which the work is carried out. The boundaries of the reference unit for the informal sector will thus impact on the number of informal jobs an independent worker can have.

52. The conceptual definition of the informal sector uses the production unit as a reference unit. A production unit is any unit that produces goods and services (ILO, 1993b, para. 37). Household enterprises (some time called household unincorporated enterprises in the SNA) share characteristics with production units in the informal sector, which is clearly recognized in the conceptual definition of the informal sector. Due to these similarities in characteristics, household enterprise as defined by the SNA is used as a starting point for the operational definition. The statistical unit in the operational definition thus becomes the household enterprise. The operational definition does not specify that the starting point is household *market* enterprises, but it is implicitly understood that household enterprises are production units in households that have some production intended for the market.

53. The use of household enterprises as a statistical unit is not without complication. An enterprise, according to the SNA, is an institutional unit in its capacity as a producer and can be engaged in a range of different productive activities (2008, SNA, para. 5.1). From that perspective, all productive activities in the household would form part of the household enterprise and all market-oriented activities would form part of the household market enterprise. Such a definition would however create a number of conceptual and operational problems.

54. To only allow one household market enterprise in a household would create a situation where several different and potentially unrelated activities could be included in the same household market enterprise. Prioritization between activities would be needed based for example on value added, or as a proxy time worked. This could create heterogeneous industries in cases where the secondary activities are very different from the principal activities. If for example one person in the household produces crops for sale and another operates a taxi, then these activities would be included in the same household market enterprise and the industry of that enterprise would depend on which activity is defined as the principal activity, , either by value of the output or time worked to produce it.

55. The SNA and ISIC rev4 deal with this issue by using the concept of establishment. An establishment is a statistical unit that is defined in the SNA as an enterprise or part of an enterprise that is situated in a single location and in which one single productive activity is carried out, or in which the principal activity accounts for most of the value added (2008, SNA, Para. 5.2). ISIC rev 4 takes the concept of establishment one step further and

recommends that, if a secondary activity is as important or almost as important as the principal activity within the same establishment, then it should be subdivided and treated as two different establishments within the same space (ISIC Rev. 4 Introduction, Para 82).

56. The use of establishments in the context of informality is not straightforward. The criterion of using different physical or geographical locations would in many cases not be relevant. A diverse set of activities can take place within the same location when, for example, there are different types of production within the household. On the other hand, the same activity can take place in many different locations. Location as a criterion would be problematical in a context where many of the activities take place in a non-fixed and non-visible location, which is often the case with informal production.
57. An activity-based definition of establishment would also be problematical. If two different activities account for a similar level of value added then these two different activities would be defined as two different establishments. It might be possible to collect data on the outputs on each activity, but it would be challenging to separate between the inputs used in the production. The same premises, tools, electricity supplies etc. may be used for different activities, making it difficult to allocate expenses to the specific activity especially in the absence of a detailed set of accounts.
58. Defining the boundaries of the statistical unit to be measured is challenging but also necessary to create a clear framework. The use of the concept household enterprise creates a clear conceptual link to the SNA and the household sector. At the same time there seems to be a need to allow for multiple production units within the same household, not least to deal with cases where different household members carry out different and unrelated activities. Establishment, as a concept, is on the other hand less well suited for the characteristics of an informal production unit, and it would be challenging from a data measurement perspective to strive towards identifying different establishments within the same household.
59. The question regarding multiple household enterprises is very much a conceptual one. From a practical point of view, the important aspect is that all market-oriented activities are identified and measured and that the reference unit allows aggregations that meet the statistical needs.
60. A way forward could be to further build on the pragmatic solution approach as outlined in the current resolution. This would allow for the existence of multiple household market enterprises within the same household. Different market activities carried out by a single household member or a group of household members would be included in a single household market enterprise, while different market activities carried out by different household members would be defined as two separate household market enterprises. If there is a need to further separate between the different activities carried out by the same person or persons then these can be further separated into activity units being performed. A definition along these lines would deviate from the concept of an enterprise in the SNA 2008 and in the ISIC rev 4 context, but would allow data to be collected from household market enterprises at a detailed level, thus enabling the necessary aggregations to meet the statistical data requirements.

61. The question of how many informal household market enterprises a person can own and operate is also linked to how many jobs a person can have as an independent worker in the context of informality. The resolution concerning statistics on work relationships clearly defines that a job is a set of tasks and duties performed by one person for a single economic unit. (Para 8, ILO, 2018b). Based on this definition, and if the number of informal household market enterprises a person can own and operate is restricted to one, then all activities defined as employment that a person carries out, which are not linked to another economic unit (i.e. in an employee relationship, as a contributing family worker or as a dependent contractor) would be considered as a one single job. This however does create situation where a person can undertake separate activities, in different occupational categories at different points in time and in different geographical locations, which would conceptually be considered as one single job. For example, a person that sells goods during the day at a market stall and drives his or hers own taxi during the evening would have one single job if both activities are defined as informal and the person is defined as an independent worker. To define the various activities that aligns with the conceptual definition of ‘one single job’ becomes a challenge when the aim is to describe the characteristics of the work relationship, especially if the respondent has the perception that the different activities undertaken are not one but separate discrete jobs. One option could be to allow a person to have multiple informal household market enterprises. However, if the objective is to actively draw a boundary between them, then this would be challenging from a data collection perspective. Another option could be to deviate from the definition in the Resolution concerning statistics on work relationships and allow for the possibility of multiple jobs for a single economic unit in the context of informality, when there are multiple activities that are not directly linked to each other and can be regarded as different occupations separated by time and in some situation by geographical location. At this stage, it is unclear how best to handle these scenarios from both a practical and operational perspective.

In order to create a clearer concept of the statistical unit there is a need to further discuss:

- *Whether “informal household market enterprises” from a conceptual point of view, is the right term to use for production units in the informal sector;*
- *Whether it is feasible and desirable to separate between different informal production units (or informal household market enterprises) within the same household;*
- *Whether there is a need to allow for one person to have multiple informal household market enterprises or for one person to have multiple jobs in relation one single informal household market enterprise;*
- *If so on what basis should the different production units (or household market enterprises) be separated from each other conceptually and operationally.*

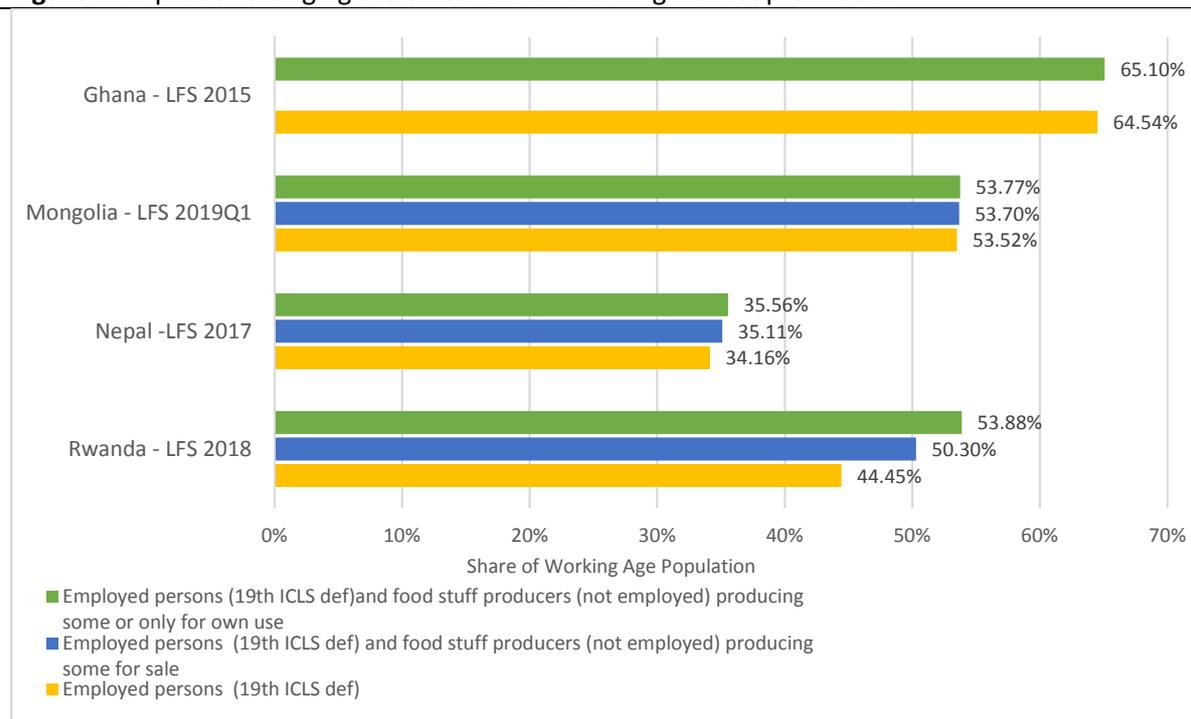
5.2 The boundary of market production

62. The criterion of at least some market production is not explicitly mentioned in the operational definition of the informal sector. The term “household enterprises” is used as the starting point for the operational definition. According to the SNA 2008 definition, household enterprises are households as producers of goods and services which includes households producing for own final use as well as households producing for the market (2008, SNA, para. 25.41).

63. That market production is an essential criterion is clear in the conceptual definition that emphasizes that the primary objective of units in the informal sector is to generate income and employment for the persons concerned. The 15th ICLS resolution concerning statistics on employment in the informal sector also clarifies in paragraph 20 that non-market production should be excluded from the scope of the informal sector and may be identified as a separate category outside the distinction between the informal and formal sectors.
64. The inclusion of household enterprises with some market production as well as the exclusion of households producing exclusively for own final use needs to be viewed from the perspective of employment as previously defined by the 13th ICLS Resolution I. The definition of employment in the 13th ICLS resolution I defined production of goods exclusively for own final use as well as activities partly intended for the market, as employment. Taking the concept of the informal sector into account, it became necessary to exclude from the informal sector household enterprises producing goods exclusively for own final use.
65. Market producers in SNA 2008 are defined as establishments where all or most of the output is market production (SNA 2008 Para 6.133), while producers for own final use produce goods and services mostly for own final consumption (SNA 2008 Para 2.40). The definition of market producers in the SNA is thus narrower than in the context of the informal sector. The subset of producers for own final use who also sell some of their output will, in SNA terms, be included in the informal sector. This is also recognized in the SNA that states that it is necessary to subdivide producers for own-final use to meet the definition of the informal sector. (SNA2008 para f25.51).
66. The threshold of production mainly intended for the market is used in the 19th ICLS resolution I to separate employment from own-use production work, which refers to activities intended mainly for own final use. Similar to SNA 2008, the 19th ICLS resolution I also uses the threshold of mainly intended for the market as a distinction between unincorporated household market enterprises (which is the term used in the 19th ICLS I) and households that produce goods or services mainly for own final use (ILO, 2013a, para. 6 (c)).
67. An adjustment of the threshold of market production from “some market production” to “mainly intended for the market” in the operational definition of the informal sector would align it to the concept of market producers in the SNA as well as to the 19th ICLS resolution I. Informal household market enterprises would then not include households producing mainly for own final use as defined by the 19th ICLS resolution I and SNA 2008. Own-use production work would per definition be excluded from the informal sector. Instead the informal sector would only include market producers as defined by SNA 2008. It could also be argued that this boundary would better reflect the current conceptual definition of the informal sector as containing units with the primary purpose to generate income and employment.
68. A changed boundary of market production would reduce the scope of informal sector (and thus increase the scope of the household sector) under the assumption that those in own use production of goods and only producing some for sale would mainly fall into the informal sector. Figure 1 below shows that the decrease of the share of the working age

population with market production is limited, when excluding those just producing some for sale. Among these three countries the largest, but with 5 percent still limited drop in the share of persons with market production is observed in Rwanda. The figures should be treated with care because the impact of changing the threshold will also depend on the level of which “mainly” is assessed on. The impact would be different depending on whether mainly is assessed on the basis of for example all the production of goods taking place in the household, or all the production of goods that a single person is carrying out, in relation to a specific cluster of goods or a specific commodity? This aspect has not yet been entirely clarified and the impact as described in figure 1 and table 3, is therefore based on the approach taken by respectively country for operationalising this boundary.

Figure 1. Impact of changing the threshold for defining market production



Source: ILO Statistics Department’s own calculations, 2019

Note: All figures are weighted estimates. Ghana does not distinguish between only and mainly for sale.

69. Based on the operationalization’s used by the respectively country to identify production mainly intended for the market 83 percent, 77 percent and 25 percent of those producing foodstuff for own-final use in Mongolia, Nepal and Rwanda, would still be included in the scope of informal sector and formal sector. While among food stuff producers the drop seems relatively high, the above figure shows that, also for Rwanda the percentage point reduction in the overall population being able to be categorized into the informal sector and formal sector is limited.

Table 3. Share of food stuff producers considered in employment when changing threshold

Surveys	mainly and only for sale	some, mainly and only for sale
Mongolia - LFS 2019Q1	83.4%	96.0%
Nepal - LFS 2017	77.1%	92.6%
Rwanda - LFS 2018	25.1%	71.6%

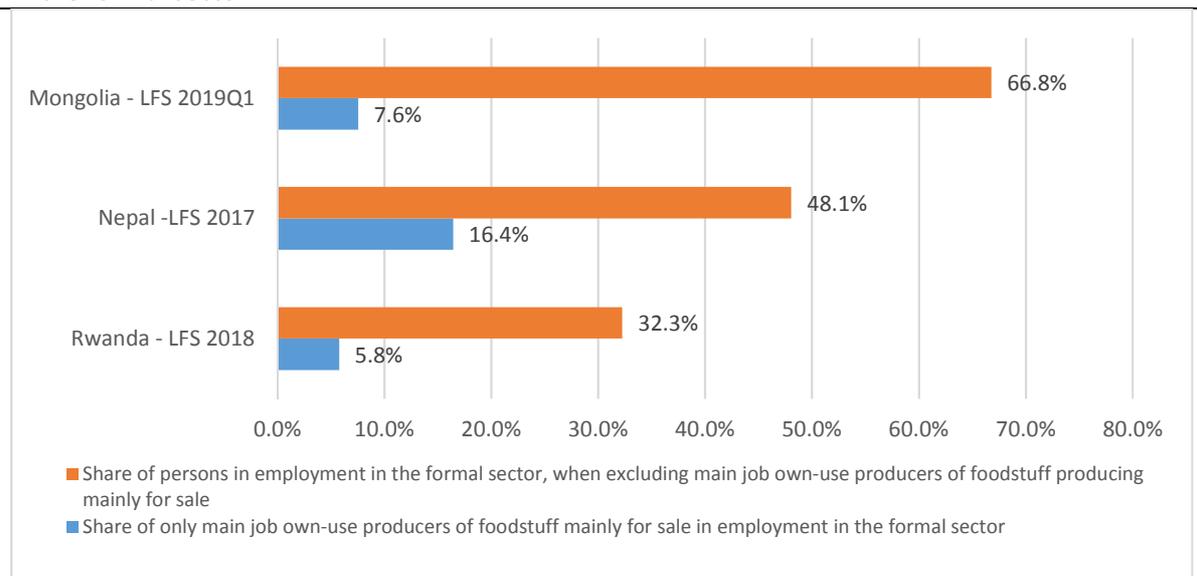
Source: ILO Statistics Department’s own calculations, 2019

Note: All figures are weighted estimates.

70. A changed threshold of market production would have operational implications, especially in relation to the identification of owner operators of informal household market enterprises as part of the measurement of informal employment. The distinction between own-use production work and employment has become essential due to the adoption of the 19th ICLS resolution I and the threshold of producing mainly for the market being the main criterion for this distinction. A change of the threshold of market production to “mainly intended for the market” would allow countries to further build on the approach used for creating the distinction between employment and own-use production work. Workers identified as own-use producers would per definition not be part of the informal sector and no further questions would therefore be needed.

71. If the current boundary is kept then this will require first the separation and identification of those that produce mainly for the market, have some production intended for the market and those that produce exclusively for own final use. It would then be necessary in a second step to define whether those that are producing mainly for the market as well as whether those that have some market production have an informal or formal household market enterprise. As a result, questions such as registration and having a complete set of accounts would also be required for those with only some market production. This would increase both complexity and respondent burden, especially when taking into account that these enterprises rarely end up being defined as formal. This assumption is supported by Figure 2, which shows that even among those that in the main job are own use producers with mainly market production few meets the requirements for being a formal sector enterprise, ranging from 5.8 percent in Rwanda to 16.4% in Nepal. In any countries’ case, this share is lower than the formal sector share among individuals not engaged in mainly for sale own use food production.

Figure 2. The share of own-account workers, employers and members of producers cooperatives in the formal sector



Source: ILO Statistics Department’s own calculations, 2019

Note: The sample of main job own-use producers of foodstuff mainly for sale in employment are restricted to own account workers, employers and members of cooperatives. All figures are weighted estimates. The (in)formal sector is determined by following the complete flowchart displayed in Figure XXX

72. A simplified operational identification of the informal sector, that excluded own-use production from the scope, would create a theoretical risk that there might be own-use production activities that conceptually should be part of the formal sector but that will not be identified. This would be the case if, for example, a person has registered a company to sell a product but at the same time the household consumes the largest part of that product. Conceptually the person would produce for two different economic units i.e. production for the formal enterprise and production for the household. However, depending on the measurement method the activity could be defined as own-use production work and would thus per definition be regarded as work carried out for a household producing for own final use. At the same time, it seems unlikely that this would be a frequent situation and the impact of such misclassifications would probably be limited. Based on the estimates in Figure 11 above from Mongolia, Nepal and Rwanda only 7.6 percent, 5.8 percent and 16.4 percent of the persons with own-use, but mainly market production end up being categorized as being part of the formal sector. These classifications are based on responses of keeping accounts and being registered with a relevant authority, place of work and size of the enterprise. Unfortunately, these and earlier surveys do not allow to estimate similar disaggregated figures for persons in own-use production work but with some or mainly market production that are defined as being in formal employment or the formal sector as a comparison. There is however good reason to believe that there are even less potential formal sector own use producers of foodstuff among those that just produce some for the market and mainly for own use.

73. How the term *mainly* should be operationalized is not further specified in the 19th ICLS resolution but ILO has been carrying out work to identify how the boundary can be identified operationally. This has been done as part of the LFS pilot studies that have been conducted to support the implementation of the 19th ICLS resolution I² and is also part of the Joint ILO World Bank Pilot Study: Implementation of the 19th ICLS in household surveys. The findings from these studies will provide important inputs to further discussions on how the boundary should be operationalized and the subsequent development of relevant recommendations for household surveys.

74. *In conclusion there is a need to consider:*

- *Whether the threshold of market production in the operational definition of an informal household market enterprise should be defined as mainly intended for the market.*

5.3 Main criteria for defining the informal sector

75. Countries typically use multiple criteria when defining the informal sector. The number of criteria used varies substantially between countries. Based on the questionnaire that ILO circulated as part of preparations for the 20th ICLS, most countries use 2-5 different criteria for defining the informal sector. Nine countries used a single criterion while two countries used six criteria or more.

² See Report IV: Measuring employment in labour force surveys: Main findings from the ILO LFS pilot studies

76. The use of multiple criteria reflects the residual approach used in the operational definition of the informal sector. The residual approach implies that the more criteria a country uses

Table 4. Number of criteria used by countries for defining the informal sector, number of countries by region

Region	Number of criteria used						Total countries in region
	1	2	3	4	5	6	
Africa	1	4	6	5		1	17
Americas	2	3	3	4	5		17
Arab States	2				2		4
Asia and the Pacific		1	1	3	4	1	10
Europe and Central Asia	4	3	2	1	5		15
Total countries per number of criteria	9	11	12	13	16	2	63

Source: ILO questionnaire 2018

to identify formal enterprises, and thereby exclude them from being defined as informal, the less risk of incorrectly identifying formal enterprises as informal. This assumption relies on the operationalization of the criteria being a clear reflection of characteristics that define the enterprise as formal. If this is not the case, then there is a risk that informal enterprises can be incorrectly defined as formal. In addition, there is a need to consider the balance between respondent burden and precision. Respondent burden is a key issue in all surveys and it is important to find the right balance between the number of questions used for defining the informal sector and the detail required to define it with an acceptable degree of precision.

77. Most countries use different combinations of the five different main criteria that can be directly derived from the operational definition of the informal sector. Only 11 countries use additional criteria. Among the 5 different criteria *registration* is most frequently used (51 out of 63 countries). Only 9 countries used *size of the enterprise* without also including registration and only 1 country used *the existence of a complete set of accounts* without also including *registration*.

Table 5. Criteria used to define informal sector/informal employment for self-employed, number of countries by region

Criteria	Africa	Americas	Arab States	Asia and the Pacific	Europe and Central Asia	Total countries per criterion
Registration	17	12	2	8	12	51
Institutional sector	9	11	3	9	10	42
Size of enterprise	8	13	2	8	8	39
Complete set of accounts	11	8	2	9	6	36
Unincorporated	6	10	2	6	8	32
Additional criteria	2	4	1	3	1	11
Total countries in the region	17	17	4	10	15	

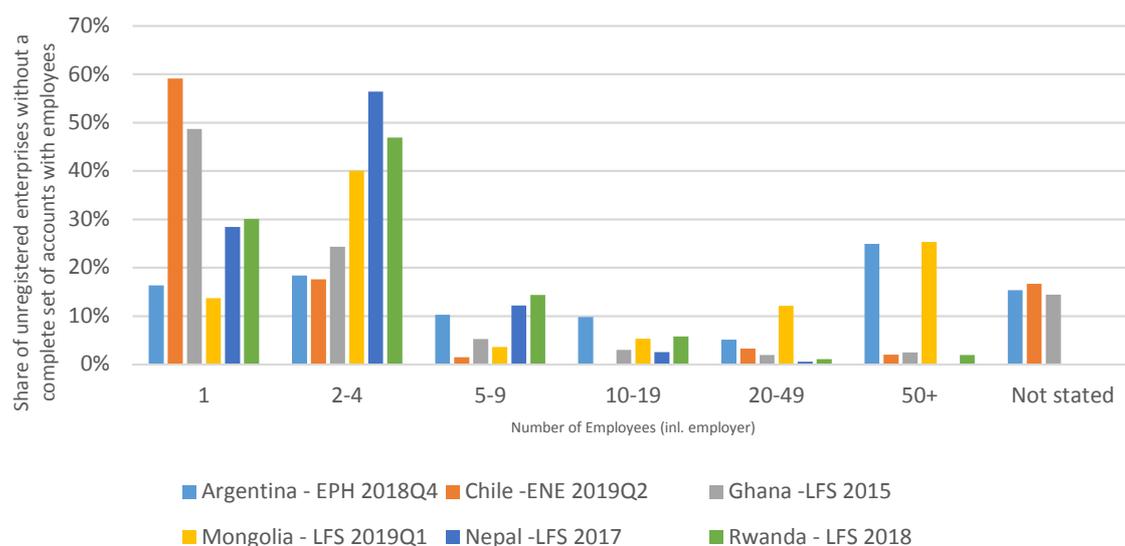
Source: ILO questionnaire 2018

5.3.1 Size versus registration

78. According to the current operational definition, countries have the option to choose between using size and/or registration as criteria for defining whether a household market enterprise is informal or formal. These two criteria, size and registration, reflect two slightly different understandings of the informal sector. They are not necessarily contradictory, but rather represent slightly different views on how informality should be interpreted. To have many employees typically requires a higher degree of organization: size as a criterion thus reflects the notion that the informal sector consists of production units with a low level of organization. Registration as a criterion is more closely linked to the view that the informal sector consists of household market enterprises that are not included in the legal-administrative framework of the country.

79. One of the characteristics of enterprises in the informal sector is that they typically do not have any employees on a regular basis. While own-account workers constitute 45 pct. of total informal employment globally, employers only make up 2.7 pct. (ILO 2018c, p.19). The two different criteria are highly correlated. The likelihood of a household market enterprise being included in the legal administrative framework (defined by registration) increases significantly when the enterprise has employees. Among unregistered enterprises in Ghana without a complete set of accounts 37 percent have employees and another 14 percent does not state how many employees they have. In Mongolia 86 percent, in Argentina 84 percent, in Nepal 71 percent, in Rwanda 70 percent and in Chile 41 percent of unregistered business without accounts have employees. Figure 3 provides a more detailed breakdown and shows that while the majority of non-registered enterprises without accounts have employees, most of these with enterprises have only few employees. The exceptions are Mongolia and Argentina, where a quarter of the unregistered enterprises without complete books have over 50 employees.

Figure 3. Share of unregistered enterprises without a complete set of accounts with employees

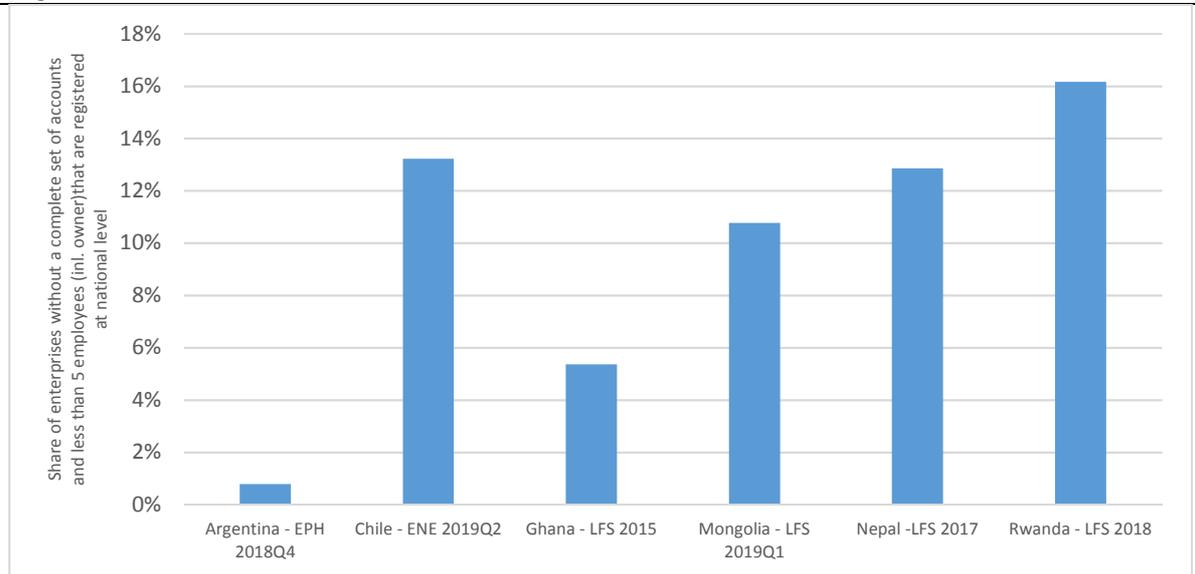


Source: ILO Statistic Department's own calculations, 2019

Note: All figures are weighted estimates.

80. Further, Figure 4 displays the share of registered firms with less than 5 employees (including the owner), who do not have a complete set of accounts. This ranges from around 1 percent in Argentina to about 16 percent in Rwanda.

Figure 4. Share of enterprises without a complete set of accounts and less than 5 employees registered at national level

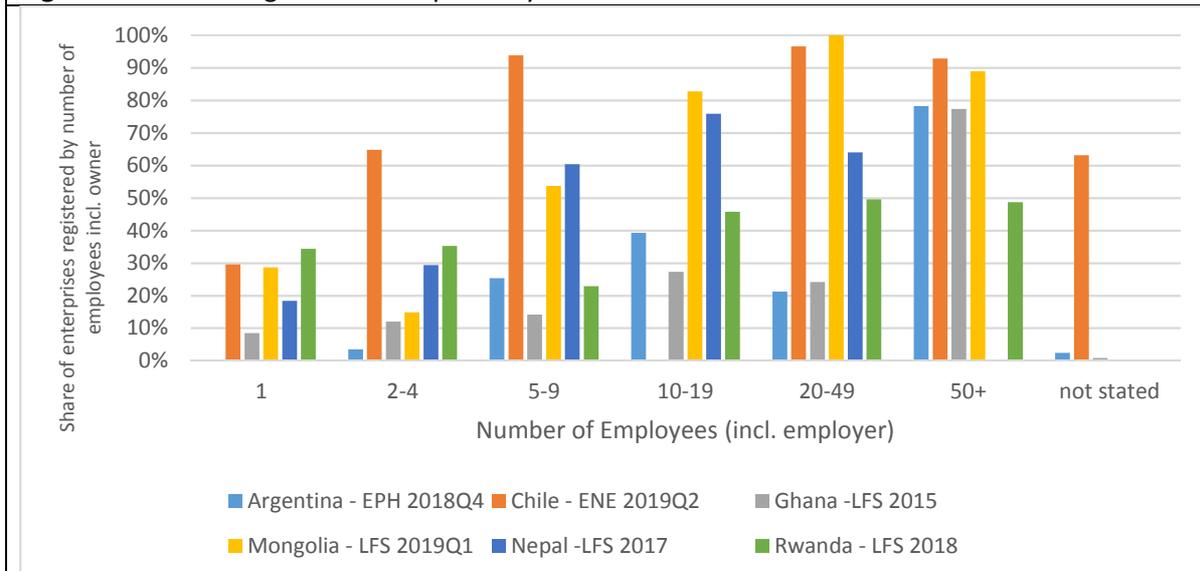


Source: ILO Statistic Department's own calculations, 2019

Note: All figures are weighted estimates. For Argentina the estimate represents the share of enterprises with less than 5 employees registered at the national level, as the survey does not contain a variable to identify bookkeeping.

In some countries the link between these criteria is particularly strong. This is the case when the size of the enterprise is embedded in the legal-administrative framework in the country, for example when an enterprise with fewer employees than a stated threshold is exempted from registration of the enterprise and fiscal obligations, creating a direct link between the two criteria. At the same time the choice of criterion can yield different outcomes. When looking at self-employed respondents of the LFSs' in Argentina, Chile, Ghana, Mongolia, Nepal and Rwanda, the share of those registered increases slowly with size, but not clearly around a particular size cut-off point (see Figure 5) and not continuously. For these three countries which are not necessarily representative for the world or their region worth noting the share of firms registered appears slightly lower among the largest, compared to the second largest enterprise category.

Figure 5. Share of registered enterprises by firm size



Source: Calculations of ILO statistics department, 2019

Note: The sample is limited to the self-employed, which includes employers, own-account workers, contributing family workers and workers not classifiable by status. For Nepal the category 20-49 is 20+. Chile only reports a larger size range from 11-49 employees. All figures are weighted estimates.

81. The use of size can be considered a strong criterion when size of the enterprise is embodied in the national legislation. However, beyond this specific situation it is difficult to find arguments for why size would be a preferable criterion that could be used as a substitute for registration. This is also reflected in the way countries choose to operationalize the definition of the informal sector. While size as a criterion is used by more than half of the countries (39 countries out of 63) only 9 countries uses size without also using registration. It therefore seems that there is a clear preference among countries to use registration and that size is rarely used without also using registration as a criterion.

82. Taking the above discussion into account, and especially the strong apparent preference among countries to use registration in combination with other criteria, there seems to be room to strengthen the operational definition of the informal sector and increase the degree of harmonization by giving registration priority over size. A consequence of such a change would be that the operational definition would become more closely linked to the view of the informal sector as covering enterprises that are not part of the legal-administrative framework of the country. Size as a criterion could still be recognized as a proxy if a threshold of the number of employees in the enterprise is embodied in the legal framework of the country or if information regarding registration is missing.

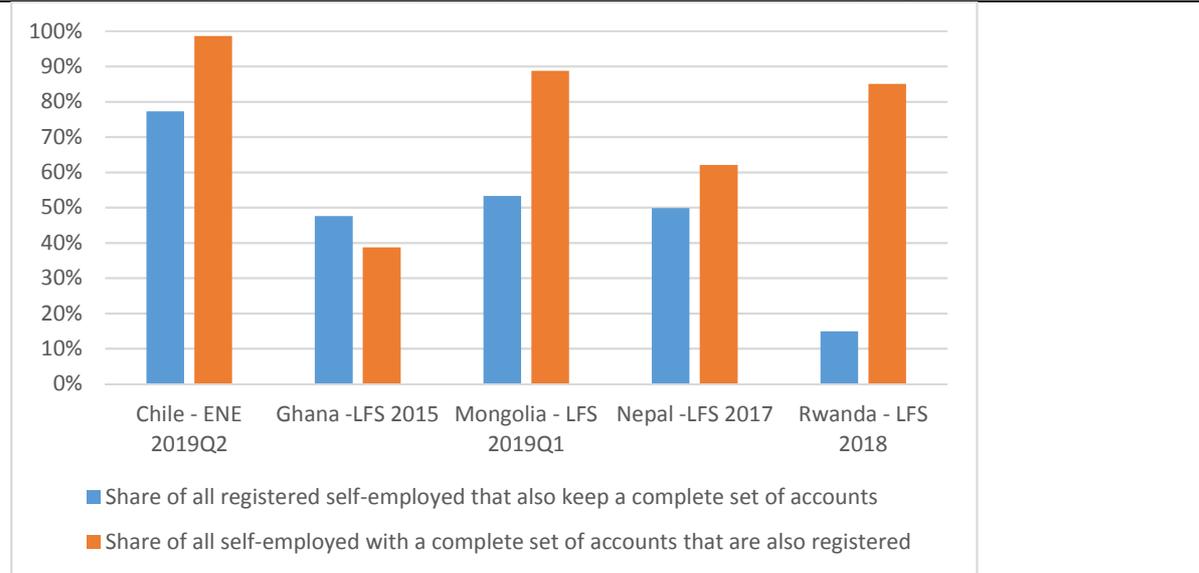
83. An essential aspect, when registration is used as a criterion, is the type of registration that is used in the operationalization. The current definition is clear in stating that the registration used as an operational criterion needs to be a registration established by national authorities. Regulations enacted by local authorities such as a permit to operate a business or to obtain a trade license are not considered sufficient since they may vary over time and between different parts of the country. In addition, a number of examples of possible registrations is mentioned but without providing further guidance on what characteristics a registration should have in order to be relevant as an operational criterion. The criterion of registration always needs to be adapted to the national context. Recommendations on the characteristics of the types of registration that could be used as

operational criteria might therefore be useful to further increase harmonization and to assist countries in this choice. This could include a recommendation that registration should be a precondition for accessing benefits such as VAT deductions, obtaining a legal identity for the enterprise as well as carrying obligations such as paying business tax and keeping accounts. Such a recommendation would need to clarify that it is not sufficient to “just be registered” if registration is not connected to the legal-administrative framework of the country and entails no obligations or benefits.

5.3.2 Having a complete set of accounts

84. The operational criterion regarding having a complete set of accounts is related to the identification and exclusion of quasi-corporations from the informal sector. Quasi-corporations, according to the SNA, are unincorporated enterprises that function as if they were incorporated enterprises. What characterises them is that they do have a complete set of accounts which allows a clear separation between the economy of the quasi-corporation and its owner(s). It must be possible to identify flows of income and capital between the owner and the quasi-corporation, the amount of income withdrawn from the quasi-corporation and balance sheets providing the values of its non-financial assets used in the production and the financial assets and liabilities owned or incurred in the name of the enterprise (2008, SNA para 4.45). Quasi-corporations are thus not separate legal entities but can be viewed as separate economic entities from an accounting point of view. Due to this characteristic, quasi-corporations are regarded as separate institutional units from their owners and do not therefore belong to the household sector but are defined as corporations.
85. The exclusion of quasi-corporations from the informal sector creates a strong conceptual link between the informal sector and the SNA household sector. However, the exclusion is less straightforward from the point of view of informality. It can be argued that quasi-corporations behave like corporations and that keeping a complete set of accounts is typically done to comply with national laws (to be able to report revenues, taxes etc.) which creates a strong correlation between having a complete set of accounts and being registered. From this perspective having a complete set of accounts would be a proxy criterion for being registered or for complying with the legal-administrative framework of the country. It can also be argued that having a complete set of accounts also indicates a higher degree of organization and that the enterprise from that perspective is more “formalized”. However, from a “legal-administrative approach” a household enterprise with a complete set of accounts may or may not be recognized and covered by the administrative and legal framework in a country. From that perspective an enterprise with a complete set of accounts could still be regarded as informal if its existence is not recognized by the legal/administrative framework and there are no consequential benefits or obligations.
86. When assessing the impact of this criterion we find that having a complete set of account is depending on the country more strongly or weakly linked to being registered (see Figure 6).

Figure 6. Overlap between having a complete set of accounts and being registered



Source: Based on calculations of ILO Statistics department

Note: All figures are weighted estimates.

87. Figure 6 provides a breakdown how registration and bookkeeping relate and displays a diverse picture. Among the self-employed that are registered 77 percent in Chile and 15 percent in Rwanda also keep a complete set of accounts and of those who have a complete set of accounts 99 percent in Chile and 39 percent in Ghana are also registered. The one is thus not a necessary precondition of the other and registration and bookkeeping do not necessarily overlap and the correlation is clearly different depending on the specific country.

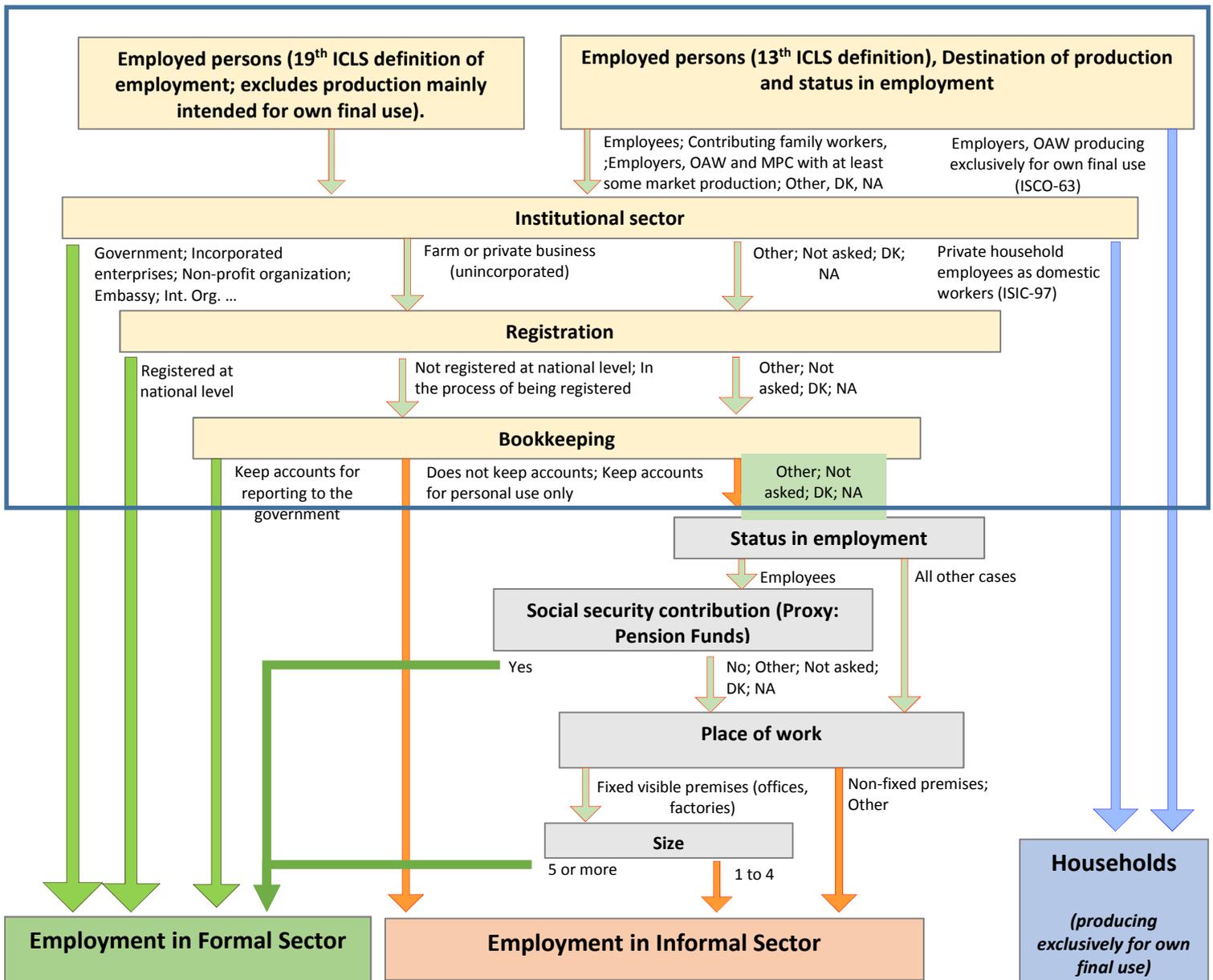
88. In order to clarify the relevance of a complete set of accounts from an informality perspective, there might be a need to more strongly link it to the concepts of formality/informality. This could for example be done by strengthening the criterion to “keeping a set of accounts for tax purposes” or “is kept to oblige to legal administrative rules”. The criterion would then more clearly reflect that the enterprise is in practice embedded in the administrative and legal framework of the country and that the accounts are kept in order to comply with regulations.

5.3.3 The “ILO approach” for defining informal sector as part of measuring informal employment

89. For the publication of *Women and men in the informal economy* (ILO, 2018c) it was necessary to develop a harmonized model for defining the informal sector and informal employment that took into account the use of different statistical sources with different criteria depending on the source and country. The method used was a residual approach: a sequence of criteria was applied step by step to identify the formal cases, eventually leaving a residual that is defined as informal. The same approach is used by the ILO in the harmonized series on informal employment and the informal sector, on ILOSTAT. Further work have been conducted by ILO to refine these approach and the latest version can be viewed in flowchart 1. To define the informal sector the main criteria used are destination of production, institutional sector, bookkeeping and registration are used. In addition, an alternative approach is used when there is insufficient information of the main criteria to

determine whether a household market enterprise is formal or informal. This is particularly relevant when the aim is to identify whether informal/formal employees are in the informal sector, formal sector or households producing exclusively for own final use.

Flowchart 1. Operational definition of employment in the informal sector formal sector and households.



Source: ILO refined harmonised approach, 2019

90. Establishing the sector for employees is challenging because they may not be aware of whether the enterprise they are working for keeps a complete set of accounts or is registered etc. However, as can be seen in table 6 a) and b) insufficient information to determine the sector is not only a concern for employees but also for self-employed and in particular own-account workers.

Table 6 a). Share of individuals in employment for whom (in)formal sector could not be determined solely based on main criteria

Survey	Share with missing (in)formal sector status
Argentina - EPH 2018Q4	68%
Chile - ENE 2019Q2	2%
Ghana -LFS 2015	49%
Mongolia - LFS 2019Q1	25%
Nepal -LFS 2017	5%
Rwanda - LFS 2018	3%

Source: Based on calculations of ILO Statistics department

Note: All figures are weighted estimates. Shares are those whose (in)formal sector status could not be determined based on the criteria within the grey section within the green box of the flow chart 1.

Table 6 b). Share of individuals with missing (in)formal sector status based solely on main criteria by ICSE93 and ICSE18 status in employment

	Argentina - EPH 2018Q4	Chile - ENE 2019Q2	Ghana - LFS 2015	Nepal - LFS 2017	Rwanda - LFS 2018	Mongolia - LFS 2019Q1
1 - Employees	72.2%	88.3%	22.8%	90.4%	87.2%	12 - Employers in household market enterprises 2.1%
2 - Employers	3.1%	1.8%	2.7%	1.1%	0.8%	22 - Own-account workers in household m 78.2%
3 - Own-account workers	24.1%	9.5%	49.3%	5.8%	11.1%	30 - Dependent contractors 2.9%
4 - Members of producers cooperatives	0.0%	0.0%	0.0%	0.0%	0.4%	41 - Permanent employees 0.1%
5 - Contributing family workers	0.6%	0.4%	17.7%	2.4%	0.5%	42 - Fixed-term employees 0.3%
6 - Workers not classifiable by status	0.0%	0.0%	7.5%	0.3%	0.0%	43 - Short-term and casual employees 1.5%
						51 - Contributing family workers 2.3%
						X - Workers not classifiable by status 12.6%

Source: Based on calculations of ILO Statistics department

Note: All figures are weighted estimates. Shares are those whose (in)formal sector status could not be determined based on the criteria within the grey section within the green box of the flow chart in Figure 1.

91. The relatively high share of insufficient information among particular employees and own-account workers needs to be further explored. It can be related to the existence of proxy interviews but could also be an indication of that the operationalization of the questions is not optimal for these categories of workers. The alternative approach for dealing with cases with insufficient information will have a significant impact on the figures when there is a high share of these cases. In practice there is a need to limit these cases (by further develop efficient tools and operationalization's) but at the same time provide recommendations for how this cases should be dealt with. Therefore it seems to be a need to further develop an alternative approach that is recognized as a feasible proxy when there is insufficient information to determine whether a particular job is in the informal sector, formal sector or in a household producing for own final use.

5.3.4 Formal employment in the informal sector

92. A conceptual consequence of the current statistical framework is the possibility for an employee to be in formal employment in the informal sector. This contradictory situation is typically problematic when the objective is to determine whether a job is held in the informal sector, formal sector or a household producing exclusively for own final use. More specifically, the issue arises when there is a need to define the type of production unit in which the employee holds the job. The definition of an informal job for employees (a definition that is discussed further in chapter 7) is detached from the definition of whether the enterprise for which the work is carried out is informal, formal or a household producing for own final use. This detachment is necessary to allow for the possibility that employees (as well as contributing family workers) may have an informal job in the informal sector, formal sector or in a household producing exclusively for own final use.
93. The notion of formal employment in the informal sector is difficult to interpret, both conceptually and analytically. Such a situation would arise when the employee is covered by formal arrangements while the enterprise is not. This would for example be the case when the employer does contribute to social insurance on the behalf of the employee, the employee has access to paid annual leave and paid sick leave but the enterprise is not registered and does not have a complete set of accounts. This situation do not include domestic workers hired as employees by households producing exclusively for own final use. Domestic workers may be employed formally or informally but are outside the informal sector and are therefore not part of formal (or informal) employees in the informal sector.
94. In practice, it is likely that if a country has a relatively high share of formal employment in the informal sector, this rather indicates a problem with the operational definitions or with the implementation of the survey, than reflecting the real situation. Such a situation could occur when for example size is used as a criterion for defining the informal sector without combining it with registration. If all enterprises below a certain threshold are defined as informal, then enterprises that might be registered and might contribute to social insurance on the behalf of their employees would end up being defined as informal. Their employees would therefore be defined as having a formal job in the informal sector. Such a situation would indicate that the operationalization in the specific context is not optimal.
95. The current definition of the informal sector includes the possibility to use registration of the employees as an operational method to measure the criterion of registration of the enterprise. Registration of employees refers to whether their contract commits the employer to pay relevant taxes and social security benefits and whether the employment relationship complies with labour legislation. Employers' contribution to social insurance, which is an important criterion for defining informal employment among employees, could be viewed as an indication that the employee is registered. Employers' contribution to social insurance could from that perspective be used as a final step for defining whether the household market enterprise in which the employee works, is informal or formal. Such a straightforward operational definition would however, exclude the possibility for informal employees in formal household market enterprises. A group that is both conceptually and analytically relevant from the perspective of informality.
96. In order to allow for the existence of informal jobs in the formal sector but to restrict the possibility for an employee to have a formal job in the informal sector a solution could be

to define the enterprise as formal if at least one employee is registered, but not necessarily define it as being informal if at least one employee is not registered. From the perspective of the employee this would imply that if the job of the employee is defined as formal then per definition the enterprise in which he or she works would be defined as being formal. However, if the employee is defined as having an informal job, then the definition of whether the enterprise is formal or informal would rely on the criteria related to the characteristics of the enterprise. This operationalization would mainly be relevant when the objective is to define the type of enterprise in which employees hold their jobs.

In conclusion there is a need to consider:

- *Whether the current operational definition should be strengthened by giving registration priority over size;*
- *Whether further recommendations can be made on the type of characteristics a given registration should have in order to be relevant as an operational criterion*
- *Whether size still should be acknowledged as a relevant criterion for defining an informal household market enterprise and in that case whether size should be used actively in the operational definition or as a proxy;*
- *Whether the criterion of having a complete set of accounts should be more closely linked to the legal-administrative framework of the country e.g. changed to “keeping a set of accounts for tax purposes” or “complete set of accounts is kept to oblige to legal administrative rules”;*
- *The need to develop an alternative approach in case insufficient information is available for defining the informal sector.*
- *Whether the possibility for employees to have a formal job in the informal sector should be removed and in that case which adjustments needs to be done to obtain this.*

5.4 The need for three types of “sectors”.

97. The 15th ICLS resolution explicitly defines informal household market enterprises, formal enterprises are not explicitly defined but can be derived on the basis of the definition of informal household market enterprises. The formal sector would consist of government units and non-profit organizations, incorporated enterprises, quasi-corporations and household market enterprises that are either registered and/or above a certain size threshold.

98. The resolution also recognizes that there are economic activities that fall outside the scope of the informal sector and formal sector but does not explicitly define this. However, with the introduction of the concept of informal employment in the 17th ICLS guidelines it becomes necessary to introduce and define a third type of production unit, households which is defined in annex as households producing goods exclusively for their own final use and households employing paid domestic workers (Annex, (b), ILO, 2023). The specific reference to households employing paid domestic workers was a necessity due to that households providing services for own-final use were not included in the previous definition of employment. With the 19th ICLS resolution I however, own-use provision of services and own-use production of goods are both part of own-use production work. It would therefore be sufficient to define the third type of production units as households producing for own-final use which would include households producing goods for own final use as well as

households providing services for own-final use and households employing domestic workers (independently of the type of production that is taking place in the household.) An essential aspect of the definition of the third type of production unit is the threshold to be used for defining whether the production should be considered as market production and hence part of the informal or formal sector or production for own-final use. A change of the threshold of production exclusively for own-final use to mainly for own final use would be aligned to the 19th ICLS resolution and its definition of own-use production work. Such a threshold would defined all own-use production work as taking place for a household producing for own-final use and thereby place it outside the scope of the informal sector.

99. The need for three different types of enterprises is evident from the perspective of informal employment. Different policy measures would typically be used depending on whether the objective is to address informal jobs held in the formal sector, informal sector or in households producing for own-final use. It seems feasible to explicitly define three types of enterprises within the household sector as defined by the SNA 2008. This together with the different institutional units as defined by SNA 2008 could be used to create three different, mutually exclusive sectors for collection purposes as well as output purposes – a formal sector, an informal sector and an own-use production sector – thus adding clarity to the framework and allowing a classification of all types of production units in one of the three sectors.

In conclusion there is a need to consider the possibility and the need to explicitly define three types of enterprises and three different sectors should be considered. The definitions could follow from the definition of the informal sector and informal household market enterprises. Such a structure would clarify the framework and allow a categorization of any kind of production unit in one of the three sectors.

5.5 Different forms of work in the informal sector

100. With the 19th ICLS resolution I the concept of employment has become more narrowly defined and no longer includes all work activities that can take place in the informal sector. Instead different forms of work can be carried out in an informal household market enterprise where employment is one of them.
101. The question of which forms of work that can take place in the informal sector is strongly related to the criterion of market production as part of defining the informal sector. If the current boundary of some market production is to be maintained then employment, unpaid trainee work, volunteer work and own-use production of goods with some intended market production are forms of work that potentially can be carried out in an informal household market enterprise. If the boundary is to be changed to mainly intended for the market then the forms of work in the informal sector would be limited to employment, unpaid trainee work and volunteer work. Independently of the exact threshold used for defining market production, it is clear that forms of work other than employment can take place in the informal sector and a revised framework needs to acknowledge, at least conceptually, that for a comprehensive measurement of all work activities, employment in the informal sector needs to be complemented with the other relevant forms of work.

102. The concept of employment in the informal sector is necessary as input to economic statistics e.g. to calculate the productivity of the informal sector, as well as for comprehensive measurement of the labour supply related to informality. The latter objective is important from a labour statistics point of view to complement the concept of informal employment. The difference between informal employment in the informal sector and employment in the informal sector is employees holding a formal job in the informal sector. If this specific group is to be defined as belonging to formal enterprises (as previously discussed) then all employment in the informal sector would per definition be informal employment. In that context it would no longer be essential to stress the concept of employment in the informal sector. Instead it would be sufficient to recognize that different forms of work can take place in the different sectors (formal, informal and own-use production sector) and that, depending on national needs, it would be relevant to measure the different forms of work within the different sectors as input to economic statistics, as well as to identify the sector in which an informal/formal job is held, as input to labour statistics.

103. *It needs to be taken into consideration that:*

- *The concept of employment in the informal sector does not cover all work activities that can take place in the informal sector;*
- *The work activities that can take place in the informal sector will depend on the threshold of market production used for defining the informal sector;*
- *If employees per definition cannot have a formal job in the informal sector then it might be less relevant to stress the concept of employment in the informal sector as a specific component of informality. Instead the framework would enable the following output:*
 - i. The different forms of work taking place within a given sector (typically useful as input to economic statistics;*
 - ii. In which of the three sectors an informal/formal job is held (typically relevant for labour statistics).*

5.5.1 Informal sector and agriculture

104. The 15th ICLS resolution includes the flexibility for countries to choose whether or not agricultural activities should be included in the measurement of the informal sector. This flexibility was deemed to be necessary due to the challenges and additional costs that arise when including agricultural activities. Information such as type of production, assets, costs, sales and value added is in general difficult to collect from informal household market enterprises but even more so in relation to agricultural activities where the boundary between the production intended for the market and the production intended for own-use is difficult to establish. In addition, the cost of expanding a survey to agricultural activities can be substantial, especially in countries with a large agriculture sector. Moreover, it is challenging to construct a relevant and respondent friendly questionnaire that works well for collecting information on both agricultural activities and non-agricultural activities.

105. It is not clear how common it is that countries exclude agricultural activities when the main objective is to measure the production of the informal sector. However, from a more general perspective the exclusion of agricultural activities seems to be relatively frequent. One third of the countries that answered the ILO questionnaire stated that they excluded

agricultural activities from their direct measurement of informal employment and/or the informal sector.

106. At the same time agriculture is the sector with the highest level of informal employment (93.6 pct. globally, ILO 2018c, p20) and the global estimates on the share of persons in informal employment falls from 62.2 pct. to 50.6 pct. when agricultural activities are excluded. The exclusion of agricultural activities reduces the informal employment rate in all regions, but the impact is particularly large for developing and emerging countries and especially in Africa. (ILO 2018c, p14.). The impact of excluding agricultural activities from the measurement of informal employment can be expected to be reduced with the implementation of the 19th ICLS resolution due to that a large part of what is now defined as own-use production of goods is agricultural production. However, the difference between including or excluding agricultural production from the measurement of informal employment can still be expected to be significant especially in countries with a high share of agriculture production. The importance of agricultural activities in relation to informality underlines that from a conceptual and analytical point of view including such activities is necessary to enable the comprehensive measurement of the informal sector and informal employment.
107. The exclusion of agricultural activities for practical reasons might to some extent be valid when the objective is to measure the informal sector as input to economic statistics especially if these activities are covered by specialized agriculture surveys. The arguments for excluding agricultural activities are less valid however, when the main objective is to measure informal employment as an input to labour statistics. This is also recognized in the 17th ICLS guidelines which underline that jobs in agriculture should be included in the measurement of informal employment (ILO, 2003 para. 7). Also, from a practical point of view it is difficult to find arguments why jobs in agriculture should be excluded when the objective is to measure informal employment. Persons working in agriculture would be included in the scope of employment and hence the cost of making the distinction of whether the job is formal or informal would be marginal. The main issue in this context is rather whether the criteria used for defining the informality of the job are relevant and valid for agriculture activities.
108. It is important to keep in mind that two thirds of the countries that have measured informality directly, included agricultural activities in their measurement, which indicates that most countries manage to include these activities in their measurement despite the practical challenges. There seems to be a strong need to learn from these countries and to develop tools that can be provided to countries that currently exclude agricultural activities and that take into account the difficulties encountered in including them. This need was expressed by a number of participants at the 20th ICLS and is necessary in relation to both the measurement of the informal sector as an input to economic statistics and the measurement of informal employment as an input to labour statistics.
109. The threshold for market production will have an important impact on this work. It is likely that the collection of data is especially challenging when targeting production that is mainly for own-final use but where some is intended for the market. To exclude this type of production from the informal sector might therefore contribute to reducing the difficulties that come with including agricultural activities in the measurement of the informal sector.

110. The exclusion of production that is mainly for own-final use from the informal sector do not imply that this production should not be measured at all. The importance of counting especially agricultural outputs and the associated labour inputs in the third sector i.e. own-use production sector should be stressed, especially in countries where this represents a significant component of GDP or of the national food supply. The inclusion of production mainly for own-final use but with some market production in the own-use production sector will allow that specialised surveys could be used to target agricultural production that is mainly for own-final use, independently of whether some is intended for the market or not which might be a more efficient way to statistically measure this type of production.

111. *In summary there is a need:*

- *To consider whether the option of excluding agricultural activities from the measurement of the informal sector should be removed;*
- *To ensure that a revised framework can be applied to agricultural activities as well as to non-agricultural activities;*
- *To gain a clearer understanding of the reasons why countries exclude agriculture activities from their measurement of informal employment;*
- *Further develop and provide tools, based on country practices, which are effective when agricultural activities are included in the measurement of the informal sector and informal employment.*

6 17th ICLS guidelines concerning a statistical definition of informal employment

112. Before discussing the main issues that need to be addressed in relation to the statistical concept of informal employment it is useful to give a short description of the current guidelines. A more detailed description of the guidelines can be found in Room document 17 prepared for the 20th ICLS (ILO, 2018a).

113. The definition of informal employment provided in the 17th ICLS guidelines concerning a statistical definition of informal employment (ILO, 2003) enlarged the statistical scope of informality to include informal employment outside the informal sector. The concept of informal employment complements the concepts of the informal sector and employment in the informal sector. The 17th ICLS guidelines thus contribute to creating a coherent statistical framework reflecting the concept of the informal economy.

6.1 Conceptual definition of informal employment

114. The 17th ICLS guidelines focus on the labour supply side of informality. The reference unit is jobs and the concept of informal employment is based on the characteristics of the relationship between the worker and the economic unit for which the work is carried out, in a particular job. This relationship can either be formal or informal and can be carried out in a formal enterprise, an informal household market enterprise or for a household producing exclusively for own final use.

115. Informal employment is defined as the total number of informal jobs. A person is thus in informal employment if he or she has at least one informal job. Informal jobs is operationally defined by its components but there is no explicit definition of the concept that ideally should be measured. The lack of a conceptual definition of informal job and thus of informal employment, creates a somewhat unclear conceptual basis for the criteria used in the operational definition. However, the guidelines and the operational definition, need to be viewed in the context of the definition of the non-statistical concept of informal economy. The informal economy refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements. (ILO, 2015, para. 2 (a)). This view on informality and formality as being linked to the formal arrangements in the country and where informality is characterised by a lack of coverage or insufficient coverage in law and practice is reflected in the operational definition of informal jobs and particular in relation to informal jobs held by employees.

6.2 Operational definition

116. The operational definition of informal job is strongly linked to the definition of status in employment given in ICSE-93, according to which a worker can, depending on the characteristics of the job, be classified as an employee, employer, own-account worker, contributing family worker, member of producer's cooperative or employee. When the job consists of owning and operating a household enterprise then the characteristics of the work and the characteristics of the household market enterprise are closely related to each other. The criteria for defining an informal household market enterprise thus become the same as the criteria for defining whether the job should be defined as formal or informal. The operational definition of an informal job among employers, own-account workers and members of producers' cooperatives thereby relies on the characteristics of the production unit.

117. Employers: Are operationally defined as having an informal job if they are employed in their own informal household market enterprise. There was no recognition of employers in household enterprises producing goods for own final use in the 17th ICLS guidelines concerning a statistical definition of informal employment.

118. Own-account workers are treated according to whether they have some market production or are producing exclusively for own final use:

(a) Own-account workers who produce goods or services with the intention to sell or barter some of them: Similar to the situation for employers, this group is considered to have an informal job if their enterprise is defined as being an informal household market enterprise. The same criteria for defining whether the enterprise is in the informal sector are therefore used to define whether the job is informal;

(b) Own-account workers who exclusively produce goods for own final use: The group by definition has an informal job. At the same time, they are outside the scope of the informal sector and are therefore placed in a third type of enterprise i.e. household enterprises producing exclusively for own final use. With the 19th ICLS resolution I this specific category is also outside employment.

119. The situation of employees and contributing family workers is different. Their jobs are separated from the characteristics of the enterprise for which they work and a different set of criteria is therefore used.

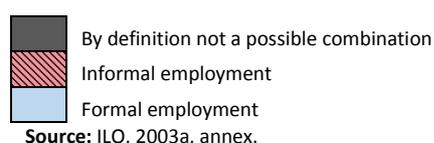
120. Contributing family workers by definition have an informal job independently of the type of enterprise.

121. Employees can have an informal job or a formal job in a formal enterprise or an informal household market enterprise or as a domestic worker employed by a household producing exclusively for own final use. The job of the employee is defined as informal 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.)” This definition closely reflects the legal-administrative view of informality and the concept of the informal economy. The relationships between status in employment, informal and formal jobs and the type of enterprise for which work is carried out are illustrated in table 7.

Table 7. Conceptual framework: informal employment

Production units by type	Status in employment (ICSE-93)									
	Employers		Own-account workers		Members of producers' cooperatives		Employees		Contributing family workers	
	Informal	Formal	Informal	Formal	Informal	Formal	Informal	Formal	Informal	Formal
Formal sector enterprise	Dark Grey	Light Blue	Dark Grey	Light Blue	Dark Grey	Light Blue	Red Hatched	Light Blue	Red Hatched	Dark Grey
Informal sector enterprise	Red Hatched	Dark Grey	Red Hatched	Dark Grey	Red Hatched	Dark Grey	Red Hatched	Light Blue	Red Hatched	Dark Grey
Households ^(a)	Dark Grey	Dark Grey	Red Hatched	Dark Grey	Dark Grey	Dark Grey	Red Hatched	Light Blue	Dark Grey	Dark Grey

(a) Household producing exclusively for own final use and households employing paid domestic workers.



7 The definition of an informal job and informal employment

122. In this chapter we discuss issues and options with respect to the conceptual and operational definition of informal jobs.

7.1 The conceptual definition of an informal job and informal employment

123. The absence of a conceptual definition of informal jobs in the guidelines creates a somewhat unclear conceptual basis for the criteria to be used in the operational definition. However, the operational definition of informal jobs (particularly those held by employees) clearly reflects the non-statistical definition of the informal economy. This link could be used more explicitly as a starting point for a conceptual definition of an informal job and informal employment. An informal job would then be a work relationship that is not

covered or insufficiently covered by the formal arrangements in the country. For independent workers this recognizes the commercial and legal rights and protections related to the characteristics of the enterprise independently of the owner, allowing for engagement in commercial contracts and obtaining access to property, finances, markets, etc. In other words owner-operators of corporations and of formal household market enterprises have the rights, responsibilities, risks and protections accorded to them by commercial law and social security law in the country concerned. This may or may not provide a similar degree of social protection to that of formal employees, but is more than that available to operators of informal unregistered enterprises. For employees' and contributing family workers this relates to the characteristics of the work relationship covered by labour laws and social security laws and would ensure their effective access to benefits. The coverage of formal arrangements needs to be in law as well as in practice. This implies that workers or production units that are not covered due to a lack of enforcement, or that are exempted from coverage due to characteristics such as size of enterprise, type of sector, a limited number of hours of work or a limited income, are still considered informal.

124. Informal employment is currently defined as the total number of informal jobs. A person is thus in informal employment if he or she has at least one informal job independently of whether this job is the main job, second job, third job etc. In practice however, statistics on informal employment typically relate to whether the main job is informal. Many countries do only publish data on informal employment in relation to the main job. The SDG indicator 8.3.1 as well as the publication *Women and Men in the Informal economy* define informal employment as persons in employment with an informal main job. The reason for this is practical. Informal employment is typically measured in household surveys that usually only identify main and second jobs and the questions measuring informality are restricted to the main job to reduce response burden.
125. When the objective is to provide comprehensive data on the total scope of informal employment, however, it is important to capture information about all informal jobs, since it is likely that in some countries a significant number of workers with formal main jobs have informal second or third jobs. This particular group is not identified when the measurement is restricted to the main job. At the same time the main job is typically (but not necessarily) the main source of income and the dimension of informality/formality in relation to the main job thus becomes essential to assess the degree of economic risk and vulnerability that the worker is facing.
126. The current definition of informal employment as the total number of informal jobs could be adjusted to more clearly reflect that persons in informal employment are those who have at least one informal job. But it would still be a need to recognize that for practical reasons and depending on the objective the measurement of informal jobs can be limited. Countries should therefore continue to measure informality in relation to the main job, but could be recommended to also cover the second job. Additional jobs could be covered if feasible and depending on need. This approach would create two useful variables in output: *Persons in informal employment (in any job i.e. in main job, second job, additional jobs)*, and *Persons in informal employment in the main job*, which in combination with other variables could form the basis for a set of indicators.

In summary, there is a need for considering the following:

- *The introduction of a conceptual definition of informal employment and informal jobs would strongly contribute to clarifying the framework and would create a link between the criteria used for defining an informal job and the concept of informality. It would not necessarily change the operational criteria currently used to defining informal employment but would rather justify them.*
- *The framework could benefit from explicitly differentiating between informal employment in main job, second job and additional jobs.*
- *The framework should provide recommendations on the measurement of informal employment both in regards to informal employment in main job as well as in additional jobs.*

7.2 ICSE-18 and informal jobs

127. ICSE-18 still includes the core elements of ICSE-93. *Own-account workers* (called independent workers without employees), *employers*, *employees* and *contributing family workers* can still be identified as second-level categories. The definitions of these different categories have been refined, but from a conceptual point of view they are similar to the definitions in ICSE-93. The main differences is that they only refer to employment as defined in 19th ICLS Resolution I and that dependent contractors are excluded from being independent workers. The introduction of a new category of dependent contractors, however, does raise questions as to how this group should be integrated into the framework and is discussed below in Section 7.4.

128. That members of producer's cooperatives do not constitute a unique category in ICSE-18 probably has a limited impact on the definition of informal employment. Whether their jobs are defined as informal or formal would follow the operationalization of the specific status in employment that they are assigned. It is therefore rather a question of applying the correct status in employment to these types of workers and the operational definition of whether their work is informal or formal would follow from that.

129. One important difference with the measurement of ICSE-93 and ICSE-18 is that it is no longer sufficient to derive status in employment on the basis of a self-identification question. Instead the self-identification question is used as a starting point to filter the respondent to a classification module that will either verify the respondents self-identified status or re-classify the respondent³. The identification of informal jobs needs to be integrated in this approach: some work has already been conducted in relation to the development of the ILO LFS model questionnaire, but further work is still needed.

130. *There is a need to further develop the identification of informal jobs in the context of the approach for measuring ICSE-18.*

7.3 Independent workers and informal jobs

131. There is nothing in ICSE-18 that calls for a change to the practice of operationally defining informal jobs held by independent workers on the basis of whether the enterprise they own

³ For an overview of the data collection approach for ICSE-18 see Data collection guidelines for ICSE-18 (ILO, 2018d)

or operate is an informal household market enterprise. Independent workers as defined in ICSE-18, own the economic unit for which they work and control its activities. This includes the aggregate categories of employers and independent workers without employees which largely correspond to the categories of employers and own-account workers in ICSE-93. The main difference is that own-account workers as defined in ICSE-93 do not necessarily have the level of authority required to be defined as independent workers without employees in ICSE-18-A. This group is instead defined as dependent contractors and thereby dependent workers due to their dependency on another economic entity.

132. An important aspect of ICSE-18 is that incorporation is a key criterion for identifying the detailed categories within *employers* and *independent workers without employees* in ICSE-18-A and for the boundary between the aggregate categories Owner-operators of corporations and Independent workers in household market enterprises in ICSE-18-R. The use of incorporation as one of the criteria to identify the detailed categories means that *employers in corporations* and *owner-operators of corporations without employees* are, by definition, owner-operators of formal enterprises and hence have formal jobs.

133. ICSE-18 does not require the identification of quasi-corporations. Instead, operators of quasi-corporations are treated as owner-operators of household market enterprises. The term household market enterprise is thereby used differently in ICSE-18 compared to the current the standards for statistics on informality and SNA 2008. Conceptually this has the implication that the ICSE-18 categories employers in household market enterprises and own-account workers in household market enterprises without employees from an informality perspective includes owner operators of quasi-corporations (that are currently defined as having formal jobs), owner operators of formal household market enterprises (defined as having formal job) and owner operators of informal household market enterprises (defined as having an informal job).

134. In practical terms this has no real impact. In a household survey that has implemented ICSE-18, a question regarding incorporation would be required for those defined as independent workers. The identification of informal jobs among independent workers would then require additional questions targeting those independent workers that do not own and operate an incorporated enterprise. The structure would thus very much follow the current structure used by most countries with the difference that incorporation as an active criterion becomes useful both for the operational definition of informal/formal jobs as well for the identification of the status in employment.

7.4 Dependent contractors

135. The introduction of dependent contractors in ICSE-18 challenges the current approach in the 17th ICLS guidelines of using a different operational basis for independent workers and dependent workers. Dependent contractors have similar contractual arrangements as owner-operators of unincorporated enterprises but they are dependent workers due to their organizational and/or economic dependence on another economic unit that benefits from the production.

136. Dependent contractors are characterized by being employed for profit and paid by a commercial transaction. They do not, by definition, have a contract of employment (formal, informal or implicit) but a commercial agreement and are typically responsible for arranging

their own social insurance as well as income tax. These are all characteristics they share with independent owner-operators of unincorporated enterprises and it could therefore be argued that the informal/formal nature of the job held by dependent contractors should be defined by the same criteria as for independent owner-operators of unincorporated enterprises. That they are dependent on another economic entity that exercises organizational and/or economic control over their activities does not necessarily change the legal or administrative status of the production unit. Dependent contractors, similar to other owner-operators of unincorporated enterprises, may or may not have registered their business and may or may not have a complete set of accounts.

137. Dependent contractors will include workers that share characteristics with employees as well as workers that more closely share characteristics with own-account workers. This is recognized in the Resolution concerning statistics on work relationships that identifies two different sub-categories of dependent contractors and is also part of the proposed measurement approach for identifying depending contractors in a household survey (ILO, 2018d). Dependent contractors will therefore include work relationships that based on ICSE-93 were defined as employees as well as own-account workers.

138. To use the same criteria for defining informal jobs among independent workers and dependent contractors would imply that the operational definition would continue to rely on the characteristics of their own production unit for those that were previously defined as own-account workers but with ICSE-18 are defined as dependent contractors. However, there would be a change in the operational definition for those workers previously defined as employees. This particular group would be defined on the basis of the characteristics of the production unit which they conceptually own and operate (even though in some cases this is likely to be a pseudo-enterprise) and not on the characteristics of their work relationship and contractual relationship with the entity for which they are dependent. In practice this change will probably have a limited impact. Workers that previously were defined as employees but with ICSE-18 are defined as dependent contractors must, at least conceptually, have been informal employees so a change of criteria will not transform formal employees to informal dependent contractors. In addition, it is possible that many of those previously classified as informal employees but are defined according to ICSE-18 as dependent contractors, will have informal household market enterprises and therefore continue to have informal jobs. However, this is an aspect that needs to be further assessed once data are available.

139. An alternative to using the same criteria as for independent workers would be, as is the case with other dependent workers, to relate the operational definition to the relationship between the worker and the economic unit on which they are dependent. It is not clear however, which characteristics of the relationship could be used to determine whether this relationship should be considered as formal or informal. The economic unit on which the dependent contractor is dependent has commercial obligations towards the dependent contractor and does not carry the obligations of an employer. The criteria used to define informal jobs held by employees are thus by definition not relevant. Instead the criteria would need to reflect either the formality/informality of the commercial relationship between the two actors or the informal/formal status of the economic unit of which they are dependent. If, for example, payments made to the dependent contractor by a formal sector enterprise must automatically and by law be declared to tax and social security

authorities then this could be viewed as a formal relationship between the dependent contractor and the economic unit for or through the work is done and it thus could be argued that the dependent contractor should be considered formal given that he/she is the same legal person as the micro-enterprise. It is not yet clear how different countries deal with this aspect and in addition it might develop over time if authorities make adjustments to commercial/labour/taxation law to improve social protection and compliance for dependent contractors.

140. *In summary there is a need:*

- *To consider whether the operational definition of informal employment among dependent contractors should have the same basis as independent workers in informal employment, be related to the commercial relationship between the dependent contractor and the economic unit of which they are dependent or if an additional approach should be used;*
- *In case other criteria should be used then what criteria could be relevant*
- *To further assess the impact of changing the criteria for the specific group of workers that in ICSE-93 were defined as employees but in ICSE-18 are defined as dependent contractors.*

7.4.1 The boundary between informal employees and dependent contractors.

141. An important issue is where and how the boundary between informal employees and dependent contractors should be drawn. From one perspective this issue is rather a question in the context of ICSE-18 and how to operationalize the measurement of status in employment. From an informality perspective the objective is to determine whether a specific job is informal or formal and a correct classification of the status of the job is a precondition for that. The framework for defining informal jobs must thus rest on the assumption that a correct classification of status in employment has taken place. However, this specific boundary has practical implications for the operationalization of the measurement of informal jobs especially if different operational definitions of informal jobs are used for employees and dependent contractors.

142. The definition of dependent contractors excludes workers that are paid a wage or salary for time worked. Being paid a wage or salary for time worked is the typical form of remuneration among employees and is an indication in itself that there is a formal or informal employment agreement and not a commercial agreement. For those who do not receive a wage or salary for time worked but are only paid by the piece, commission or tips, the boundary between dependent contractors and employees is set by whether or not there is a formal, informal or implicit contract/agreement of employment (ILO, 2018b, para. 38(a)). This boundary is straightforward to identify when the employment agreement is formal.

143. If, for example, the employer does contribute to social insurance, then there is a clear agreement of employment and the worker is defined as a formal employee in that job. However, the boundary is more difficult to identify in the context of informality, especially in situations where there are no written contracts. The types of workers in this situation can be assumed to be very heterogeneous. They could, for example, include workers who work alongside formal employees, carry out similar activities, have the same type of

remuneration (e.g. paid by the piece) and similar working hours as the formal employees, but only have an oral agreement and are not covered by social protection. But they could also include workers, who, for example harvest coffee together with other family members. The worker is also paid by the piece with a pay rate decided by the plantation owner but there are no fixed working hours or working days and there are no other formal employees that conduct the same type of work at the plantation.

144. These types of situations were discussed during the 20th ICLS and it was concluded that workers without a written contract working alongside and on similar conditions to employees with formal contracts of employment should be considered as having an implicit contract of employment and therefore be defined as informal/formal employees (ILO, 2018e, Appendix1, para. 36). The first case would therefore be informal employees while the latter would most likely be informal dependent contractors. The concept of implicit employment contracts which overlaps with informal contracts/agreements thus becomes essential and needs to be further explored, particularly from a data measurement perspective. In addition, the impact of using this method of operationalization from the perspective of informality needs to be further assessed.

145. *There is a need to further clarify the boundary between informal employees and dependent contractors.*

7.5 The operational criteria for defining informal jobs among employees

146. A number of different potential operational criteria for measurement can be derived from the operational definition of an informal job among employees. These criteria can be organized into five different categories, (1) whether the job is subject to income taxation (2) whether the employee is affiliated to a job specific social insurance scheme (health insurance, pension fund, disability or unemployment fund), and whether the worker is entitled to (3) annual paid leave (4) paid sick leave and (5) other benefits such as paid maternity/paternity leave, advance notice of dismissal and severance pay. The 17th ICLS guidelines do not further specify which of these criteria are preferable, or how they should be combined. Instead this has to be determined in accordance with national circumstances and data availability (ILO, 2003, para. 5). This flexibility reflects the reality at the time that there were few empirical data on informal jobs among employees. The operational definition therefore needed to be flexible to allow countries to develop national definitions that would enable them to start to measure informal jobs held by employees.

147. The different criteria all reflect the non-statistical definition of the informal economy. They aim to capture whether the employment relationship (i.e. the relationship between the employee and the employer) is formally recognized by the employer as well as by the legal/administrative framework of the country and therefore subject to the labour laws and regulations in the country. Labour laws, regulations and the level of protection an employee is entitled to, differ substantially between countries and between different categories of employees within the same country. However, the recognition of the employment relationship by the employer in relation to the legal framework can be viewed as a precondition for having access to the protection defined in the legal framework independently of its specific level of protection.

148. An important aspect when discussing the different criteria for operationalizing the definition of informal jobs among employees is the need to separate between the objective of statistically defining informal jobs and the need to collect information regarding the total degree of protection for employees in different employment situations. The two aspects are related but different. For example, social protection is an important topic in its own right, highly related to but also separate from the definition of informality. From the perspective of statistically identifying informal jobs among employees, employers contribution to social insurance, paid annual leave, paid sick leave etc. should be viewed as potential operational criteria that can be used to determine whether the job is recognized in relation to the legal and administrative framework and thus subject, in practice, to labour laws and regulations.
149. The total scope of social and legal protection can, and in many cases will, be different for different types of employee in a country and between countries. This has important implications on the economic risk the employee is exposed to. But for the purpose of statistical identification and measurement of informal jobs, it could be argued that if an employee has a recognized employment relationship in law and in practice the job is formal, regardless of whether, according to laws and regulations, this grants access to the full set of protection or a more limited level of protection. If, for example, the employee by law has the right to social insurance and the employer does contribute for the employee to a recognized social insurance scheme, then this could be seen as an indication that the employee has a recognized employment relationship in law and in practice and thereby a formal job. Additional access to other social protection schemes and benefits will increase the employee's protection, and is an important aspect in itself, but do not necessarily impact on the whether the employment relationship is recognized or not in relation to the legal administrative framework of the country.
150. It could also be argued that the level of protection within a specific social insurance scheme or employment benefit is of less relevance when operationalizing the definition of an informal job among employees. The number of paid days granted for sick leave or paid leave, or the level of the health insurance or pension, are important from the perspective of the economic risk to which the employee is exposed but do not necessarily impact on the definition of whether the employee has an informal or formal job. A higher level or more paid days granted will increase the level of protection but does not necessarily impact on the statistical distinction between informal and formal jobs.
151. This implies that there is an important need to contextualize the dichotomy between informal and formal jobs and thus recognize that the level of economic risk, social protection coverage as well as coverage by labour laws will differ among both formal and informal jobs. This need goes beyond informal jobs held by employees and would be relevant for all employed persons, regardless of their status in employment and informality status. ICSE-18 and the cross-cutting variables do provide an important framework that could be used in this regard, but it would also be important to explore whether additional variables (e.g. relating to social protection) could be used to create a framework that provides statistical information reflecting the heterogeneity within the dichotomy between informal and formal jobs.

152. Even though there are different potential operational criteria that can be used to identify whether the employment relationship is subject or not to the labour laws and regulations in the country, they must meet some certain requirements in order to be relevant. These requirements can be derived from the current operational definition as well as from the underlying non-statistical definition of the informal economy.

153. The operational criteria need to:

- *Be job specific*: They have to be dependent on holding a particular job and not universal. For example, a universal social protection scheme is not directly linked to a specific job and cannot therefore be used as a criterion to determine whether a specific job is formally recognized or not;
- *Reflect that the employer is obliged by labour laws and/or regulations to fulfil the specific criterion*: For example, voluntarily contributions by the employer to social insurance or voluntarily payment in the case of sickness only capture the relationship between the employer and the employee, but do not necessarily capture the dimension that the relationship also needs to be acknowledged in relation to the legal framework of the country;
- *Capture the situation in practice*: It is not sufficient if the employment relationship is covered by law but not in practice due to for example to a lack of enforcement. A situation where an employee is covered by law but not in practice would still leave the employee in the same situation as if the person were not covered by law. The operationalization of a given criterion thus needs to reflect that the employer in practice fulfils the obligation.

154. These three requirements can be used to assess the relevance of a given criterion within different national contexts. A criterion that does not fulfil all three requirements would not be efficient in indicating whether the job held by an employee is formal or informal.

7.5.1 Main criteria used by countries

155. Based on countries' answers to the ILO questionnaire, 54 countries have measured informal employment among employees within the last ten years. Countries tend to use multiple criteria to define informal employment and most countries combine three or four different criteria in their operationalization; six countries use a single criterion and seven countries use five or more different criteria in their operationalization.

156. *Employer's contribution to social insurance* is the most frequent criterion and only eight countries did not include this criterion at all in their operational definition. This is followed by *existence of a written contract*, *paid annual leave* and *paid sick leave*. 15 countries use additional criteria such as payment of income tax, the possibility to be fired without notice or receiving of a thirteenth month salary.

Table 8. Criteria used for the definition of informal employees, ILO questionnaire

Criteria	Africa	Americas	Arab States	Asia and the Pacific	Europe and Central Asia	Total
Social insurance	13	13	2	8	10	46
Written contract	12	7	3	7	11	40
Paid annual leave	10	8	2	8	10	38
Paid sick leave	10	5	2	8	10	35
Additional criteria	7	5		3		15
Total number of countries	13	14	4	9	14	54

Source: ILO questionnaire 2018

157. The frequent use of employer's contribution to social insurance as a criterion is also supported when assessing the microdata used for the publication of Women and men in the Informal economy as can be seen in Table 5. Based on this assessment, 111 out of the 114 countries for which an estimate of informal employment could be produced included the criterion of employer's contribution to social insurance. 57 countries included paid annual leave, 43 paid sick leave and eleven written contract. Two countries also included maternity leave.

Table 9. Criteria used for the definition of informal employees, Micro data assessment

Criteria	Africa	Americas	Arab States	Asia and the Pacific	Europe and Central Asia	Total
Social insurance	32	19	5	16	39	111
Paid annual leave	24	11	2	12	8	57
Paid sick leave	17	4	2	10	10	43
Written contract	3		1		7	11
Maternity leave	1		1			2
Total number of countries	33	19	5	17	40	114

Source: Assessment based on microdata used for the publication of Women and men in the informal economy (ILO, 2018c)

158. In relation to the revision of ICSE-93, ILO reviewed questionnaires from 148 national LFS countries with the aim of identifying the coverage of the five criteria that can be deduced from the operational definition of informal employment among employees. This review also confirms that employer's contribution to social insurance is the most frequent criterion (56 countries) followed by paid annual leave and paid sick leave (respectively 55 and 39).

Table 10. Criteria used for the definition of informal employees, National LFS questionnaire assessment

Criteria	Africa	Americas	Arab states	Asia and the pacific	Eastern Europe	Western Europe	OECD	All
Social contributions by employer	10	19	3	13	8	3	5	56
Paid annual leave	19	13	2	14	5	2	4	55
Paid sick leave	12	11	1	10	5	0	2	39
Paid maternity leave	7	4	1	6	0	3	5	21
Taxes paid	10	3	0	2	0	1	1	16
No relevant question	9	8	3	15	15	15	24	65
Total available questionnaires	35	29	7	32	23	22	35	148

Source: ILO, 2016

159. The different reviews clearly show that *employer's contribution to social insurance* is the main criterion used by countries to operationalize the definition of informal employment among employees. This criterion clearly captures the aspect of whether the job is recognized by and subject to the legal administrative framework in the country. The act by the employer of making contributions indicates that the recognition is not only in legal terms but also in practice. The operationalization of this criterion does, however, need to be related to the national context and countries use different forms of insurance such as old-age benefits occupational injury insurance, health insurance or unemployment insurance to operationalize the criterion (ILO, 2016). The exact type of social insurance scheme used for operational measurement, is of less importance from the perspective of defining informal/formal jobs, as long as it fulfils the criteria of being job-specific, mandatory and an act carried out in practice.
160. In addition, most countries combine this criterion with access to paid annual leave and access to paid sick leave. Both criteria are typically part of national labour laws and regulations and can thus be used as an indication of whether the job is formally recognized, and thereby subject to labour laws and regulations in law and practice. Countries typically ask whether the employee has access to paid annual leave and paid sick leave without asking about the number of paid days. To have access to some paid annual leave and/or some paid sick leave is sufficient to conclude that the job is recognized and thereby formal as long as it is in line with the national labour laws and regulations and that the employee has access in practice.
161. Based on the ILO questionnaire countries do also to a relatively large extent use the existence of a written contract as part of the operational definition. This is not a criterion that is directly mentioned in the operational definition in the guidelines due to its ambiguity. Having a written contract might be a precondition for obtaining effective access but may sometimes not be sufficient to ensure such access. The absence of a written contract may therefore indicate informality but the opposite may not be the case: not all contracts indicate effective coverage by labour laws and social protection and there can be a lack of enforcement in the country, which decreases the value of having a written contract. In addition, there are situations where employees do not hold written employment contracts since their conditions of employment are automatically covered by collective agreements or national labour law.
162. Additional criteria such as whether the job is subject to income taxation or access to maternity leave and more nationally specific criteria such as receiving a 13th months' pay might also be relevant for the operational definition of informal jobs. If income taxes are paid (either deducted from the pay of the employee by the employer or paid directly to the tax authorities or declared for taxation purposes) or the employee has access to maternity leave or receives other benefits then there is an indication that the job is formal. Based on the review of country practices, the use of these additional criteria is relatively rare and they are almost never used without combining them with at least one of the criteria of employer's contribution to social insurance, paid annual leave and paid sick leave.
163. Based on country practices, there seems to be a strong preference among countries to use employer's contribution to social insurance, in combination with other criteria such as access to paid annual leave and paid sick leave, to identify informal employees. Those

criteria also clearly reflect the concept of informal economy and whether the work relationships of employees are covered by labour laws and regulations in law as well as in practice. In addition, the existence of a written contract is also commonly used as part of the definition. The existence of a written contract might not be a guarantee that the job is formal but might (depending of the country) be a precondition for obtaining effective access. These clear preferences among countries might call for strengthening the operational definition by more clearly indicating which specific operational criteria would typically be useful for operational measurement and under which circumstances they are relevant. It would be essential, however, to retain a degree of flexibility for countries to continue to adapt the measurement to the national context.

7.5.2 Combining the criteria

164. One dimension is the set of criteria that countries collect; another dimension is how they choose to combine the criteria. Two countries that use the same criteria, e.g. *employer's contribution to social protection, paid annual leave and paid sick leave*, can combine the criteria in different ways. ILO has identified three different archetypical approaches which countries may use (ILO, 2016):

165. *Strict formality approach*: implies that all criteria have to apply for the job to be defined as formal. If at least one of the criteria is not met, then the job held by the employee is defined as informal. This approach can be viewed as a residual approach that aims to minimize the chance that informal employees end up defined as formal. This typically creates fewer formal employees and more informal employees.

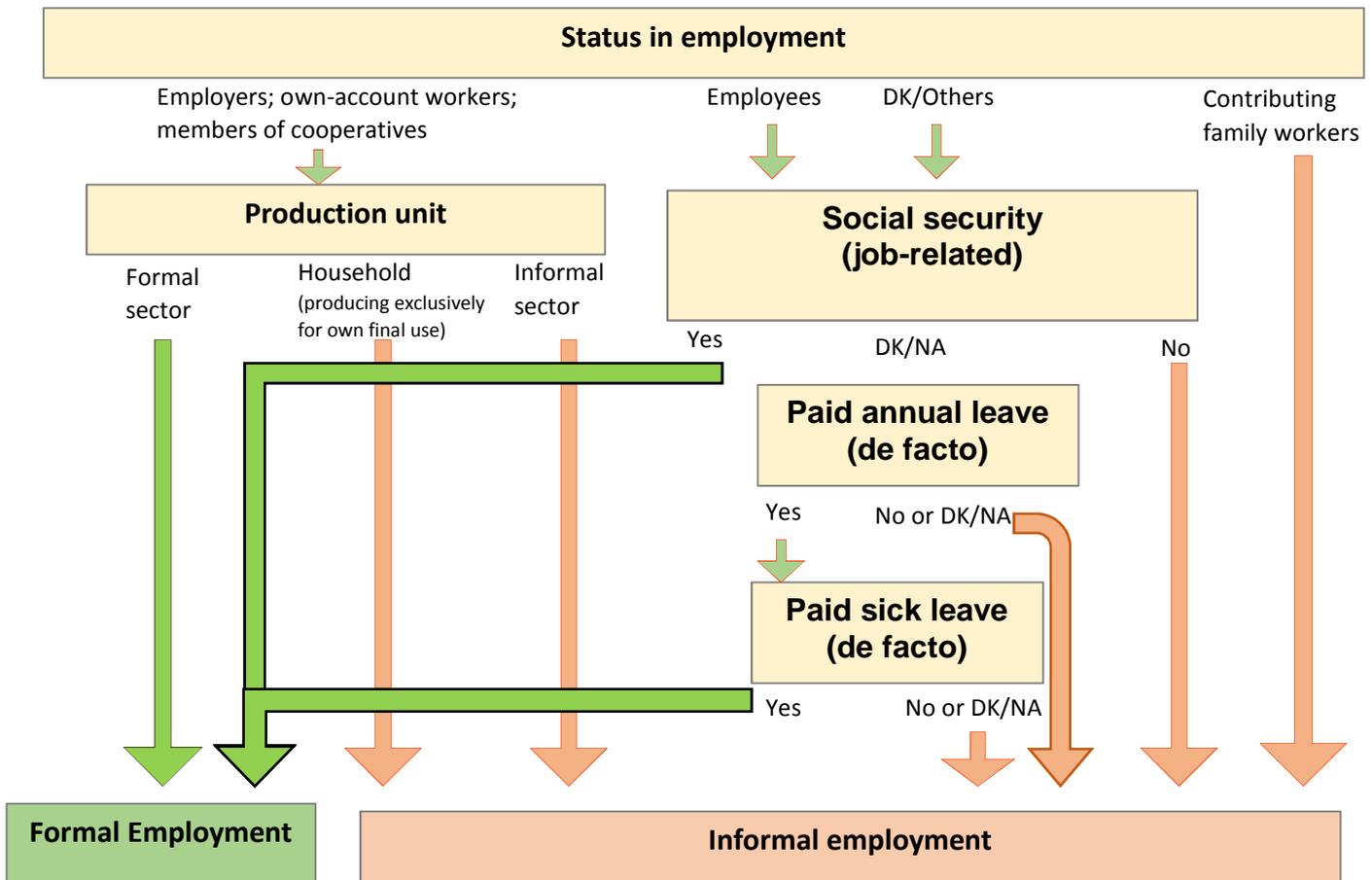
166. *Weak formality approach*: is the opposite of the strict approach. In the weak approach it is sufficient if one of the criteria is met for the job to be defined as formal: it is only when all criteria do not apply that the job held by the employee is defined as informal. The weak formality approach is a residual approach that aims at minimising the risk that formal employees end up being defined as informal. This would typically create more employees in formal employment and fewer in informal employment.

167. *Moderate approaches*: are different combinations of the criteria where one or more criteria are given priority. An example of a moderate approach is that used by ILO to derive informal employment among employees in the harmonized series⁴. In this approach the criterion of employer's contribution to social insurance is given priority over the other criteria. The reasons for this prioritization are both conceptual as well as practical. As discussed above, employer's contribution to social insurance is a strong criterion to use in the right context and is the most frequently used by countries. There are, however, contexts where this criterion is less useful, for example in countries that only have universal social protection schemes or in countries where employers are not obliged to provide contributions to social insurance for employees. In these situations, the combination of paid annual leave and paid sick leave are used to define whether the employment relationship is recognized or not. In addition, the combination of paid annual leave and paid sick leave

⁴ The harmonized series was developed by ILO for analytical purposes and is derived by applying a consistent navigational path in processing micro data. The data used are the latest available that includes the minimum criteria for defining informal employment. This implies that different household surveys are used. The harmonised series are available at: www.ilo.org/ilostat

is used when the respondent is not able to provide information regarding the main criteria for defining whether the job is formal or informal, which is particularly relevant in proxy interviews.

Flowchart 2. Operational definition of informal employment



168. The different approaches do to some extent reflect different views on how an informal job among employees should be understood. The strict approach requires a high degree of protection and access to benefits and it is only when all criteria apply that the job is defined as formal. Jobs that fulfil some of the criteria but not others are defined as informal. This creates a situation where informal jobs might have characteristics that typically would be associated with formal jobs. An employee can for example has access to paid sick leave, the employer contributes to social insurance but the job is defined as informal because it does not give access to paid annual leave.

169. On the other hand, the moderate approach and the weak approach rather reflect the view that it is sufficient for the employment relationship in job to be recognized, in order to be defined as formal, regardless of whether the protection and legal coverage that follows from it is of limited scope. The main difference between the moderate approach and the weak approach is that the moderate approach assumes that one criterion is more likely to identify informal/formal jobs than the others, while the weak approach assumes that all criteria used to identify formal/formal jobs have equal relevance. The moderate approach creates a situation where both employees with formal jobs and with informal jobs may or may not have access to additional benefits. The weak approach ensures that employees

with an informal job do not have access to any of the benefits used as operational criteria, but employees in formal jobs may or may not have access to multiple benefits.

170. An implication of using the weak or moderate approach as operationalization is that the concept of formal jobs becomes a concept that does not capture the degree of protection associated with the job held by the employee. In these approaches, the dichotomy between informal and formal jobs has to be viewed as a way to distinguish between employees that have a recognized employment relationship and those that don't, where having a recognized employment relationship is a condition for having access to job-related social insurance and for being subject to the labour laws and regulations in the country. The level and degree of coverage will vary between countries but might also vary between employees within the same country. In some countries, all employment arrangements might oblige the employer to contribute to social insurance and give access to paid annual leave and paid sick leave. In other countries this could depend on the type of employment arrangement, where some types of jobs give full coverage while others (for example very short-term contracts) only give partial coverage. In order to reflect this situation, it becomes necessary to put the dichotomy of informal/formal job into context.

171. The different approaches do have an impact on the figures on the share of informal employment among employees and the degree of impact differs between countries. As can be seen in Table 11, the difference is large in some of the countries. The strict approach creates around 19 percentage points more formal employees in Mongolia than the weak approach. The difference is less significant in Argentina, Ghana, Nepal and Rwanda where the two approaches only create an around 6 percentage point difference, but even this difference is still sizeable.

<i>Countries - Surveys</i>	<i>Strict</i>	<i>Moderate</i>	<i>Weak</i>
Argentina - EPH 2018Q4	51.1%	49.0%	46.8%
Chile - ENE 2019Q2	34.9%	29.1%	27.3%
Ghana - LFS 2015	80.1%	78.0%	74.1%
Mongolia - LFS 2019Q1	65.7%	46.9%	46.7%
Nepal - LFS 2017	82.3%	80.8%	76.7%
Rwanda - LFS 2018	81.6%	80.4%	76.1%

Source: Based on calculations of ILO Statistics department, 2019
Note: All figures are weighted estimates, following flow chart xxx. In the case of Mongolia, Dependent Contractors are classified following the arrows for employees and non-classifiable workers through social security, paid leave and annual leave.

172. Countries will yield a different outcome depending on the approach they choose for deriving informal jobs among employees. The use of different combinations of criteria adds to the complexity. The lack of stronger recommendations on which criteria to use under which circumstances and how to combine them is a challenge. Especially from the perspective of the provision of internationally comparable data. Collecting further information on country practices regarding how countries combine the criteria would provide important input to future discussion.

173. *In conclusion there is a need to consider:*

- *The possibility of strengthening the operational definition by giving priority to the criteria most commonly used by countries i.e. employer's contribution to social insurance, access to paid annual leave, access to paid sick leave.*
- *Whether inclusion of recommendations on how the criteria should be combined is feasible and in that case how the criteria should be combined.*
- *The need to further map country practices for combining the criteria*
- *The need to contextualize the dichotomy of informal/formal jobs held by employees as well as for all statuses in employment thus recognize that the level of economic risk, social protection coverage as well as coverage by labour laws will differ among both formal and informal jobs.*

7.6 Contributing family workers

174. Contributing family workers currently by definition have an informal job. This rests upon the assumption that it is unlikely that contributing family workers would have a formal job since their work agreements seldom have a formal character and are typically not covered by labour legislation, social security regulations, etc. At the same time, contributing family workers are defined as dependent workers according to ICSE-18 and it could be argued that similar criteria used to define an informal job for employees also should be used for contributing family worker. It would however, be necessary to adjust the operational criteria to the specific situation of contributing family workers. They do for example, per definition not receive a wage or salary and a criterion such as access to paid leave would thus not be relevant. At the same time there might be situations in which they have access to some social protection as a result from their employment and their activities might be registered in some form.

8 A future framework

175. A number of possible scenarios could be envisaged in an update of the statistical framework of informality. It would, for example, be possible to aim for a single resolution that includes all statistical components of informality and that addresses all forms of work. Alternatively the framework could be more restricted so as to correspond more closely to the current scope. These types of fundamental decisions will have an impact on the structure of the new framework, the concepts to be included, data measurement and indicators.

8.1 Concepts

8.1.1 A single conceptual starting point

176. A new framework could be based on a common conceptual starting point for the different concepts relating to informality. This could contribute to clarifying what, from a statistical point of view, is meant by the term "informal" which would bring further clarity to the different statistical concepts and their operationalization. The non-statistical concept of the informal economy could be used as a starting point for such a concept. The concept of the informal economy has been recognized in the Resolution concerning decent work and the informal economy (ILO, 2002) and in Recommendation No. 204 concerning the Transition from the Informal to the Formal Economy (ILO, 2015). The informal economy is a concept for policy purposes that embodies the sum of the main statistical components of informality. It refers to all economic activities by workers and economic units that are – in

law or in practice – not covered or insufficiently covered by formal arrangements. (ILO, 2015, para. 2 (a)) it thus includes enterprises in the informal sector as well as workers carrying out informal economic activities.

177. Formal arrangements are the key element in the definition and can be understood in terms of the procedures established by the government to regulate the actions and functions of economic units and workers, as well as protecting their legal rights. Being covered by formal arrangements implies that the productive activities are recognized by the legal administrative framework of a country and therefore are associated with a degree of protection as well as obligation. Not being covered or being insufficiently covered implies an increased economic or/and personal risk associated with carrying out the productive activities due to its informal nature.

8.1.1.1 *The statistical components of the informal economy*

178. The intention behind the concept of the informal economy is already integrated into the concepts of the informal sector and informal employment. This becomes especially evident in the operational definition of informal jobs held by employees. It would therefore be relatively straightforward to link these concepts to a single conceptual starting point. In this context “formal arrangements” would refer to regulations and laws such as:

- commercial laws that regulate the productive activities carried out by economic units and their engagement in commercial contracts and safeguard their intellectual and physical property etc.,
- procedures to report economic activities such as fiscal obligations in order, for example, pay taxes or to cover employees for social security,
- coverage by labour laws and regulations such as annual paid leave, minimum wage, hours of work and social security laws.

179. The *informal sector* would constitute production units with market production that are not formally recognized and thus not covered or insufficiently covered by formal arrangements. *Informal employment* would constitute activities in which workers carry out productive activities defined as employment that are in law and practice not covered or insufficiently covered by formal arrangements. An *informal job* would be a work relationship defined as employment that is, in law and practice, not covered or insufficiently covered by formal arrangements. Informal employment would by definition include all productive activities associated with an informal job. If a job is not formally recognized or acknowledge and hence not covered by formal arrangements, then it follows that all productive activities associated with the job are not covered either.

180. The introduction of a common conceptual starting point for the different statistical components of informality may only have a limited impact on the current structure and operational criteria for defining informal employment, informal jobs, and the informal sector. It would not fundamentally change the operational criteria currently used but it would provide clarity regarding which criteria that should be used and under what circumstances. In addition it would strongly contribute to the creation of a coherent framework.

181. If the framework is extended to some or all forms of unpaid work as defined by the 19th ICLS Resolution I the concept of *informal work* would need to be introduced. Informal employment would then be one component of informal work. Similar to employment, a

conceptual definition of informal work could also be derived on the basis of a common statistical concept. It could then be “productive activities (defined as work according the 19th ICLA resolution I) that are not covered or insufficiently covered by formal arrangements”. While it is relatively clear how “formal arrangements” should be understood in relation to employment this might be more challenging in relation to the different forms of unpaid work and the different categories of work relationships related to the unpaid forms of work. There might be some work activities within the unpaid forms of work that could to some extent be covered by formal arrangements. For example, unpaid trainee work does in some cases give entitlement to certain benefits and compensations. Organization-based volunteer work might to some extent be regulated and give access, for example, to insurance against injury and accidents. At the same time, there are work activities that might be unregulated and where there is no or little interest in regulating it, for example in relation to direct volunteer work. It will be essential to get a better understanding of whether the concept of informal arrangements can be related in a meaningful way to the different unpaid forms of work, and if so, how that should be done.

182. To define informal employment and, if included, informal work on the basis of whether the work relationship is defined as informal, creates a situation where it could be argued that not all *informal productive activities* are included in these concepts. This would be the situation when informal productive activities are taking place within a formal work relationship, particular in relation to formal jobs. For example in the case of an employee formally hired to work ten hours per week but have an agreement to work additionally ten hours that are undeclared and for which no social contributions are made or in case of sickness, not compensated for. A conceptual separation between informal productive activities (understood as productive activities not covered by formal arrangements) and informal jobs or work relationships would acknowledge that informal productive activities can take place within a formal job. Informal productive activities would thus be statistical units connected to the statistical unit of job. Such a distinction could have particular relevance in countries characterised by a relatively low share of informal jobs, but where informal productive activities in formal jobs are significant.

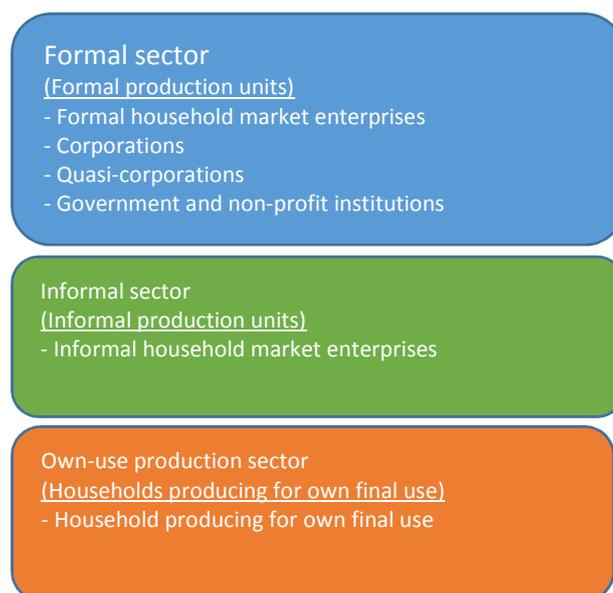
There is a need to consider the structure of a new framework including:

- *The possibility of introducing a common starting point for the conceptual definitions of the different statistical concepts relating to informality;*
- *If such starting point is to be introduced, whether it should be built on the existing non-statistical concept of the informal economy;*
- *The usefulness of a conceptual separation between informal work relationships and informal productive activities.*

8.2 The three types of production units and the informal sector

183. The different issues that need to be addressed regarding the conceptual and operational definition of the informal sector have already been discussed in the paper. However, in a new framework it would be feasible to explicitly and mutually exclusively define three different types of production units based on the current definitions in the 15th ICLS resolution, the 17th ICLS guidelines and the SNA 2008. An outline can be seen in figure 8.

Figure 8: Identification of the three sectors associated with measurement of informal work



184. A clear and explicit definition of the three types of production units might create a more coherent framework that also takes into account the need to define production units outside the dichotomy of informal/formal sector.

185. If a common statistical definition is to be introduced then, conceptually, formal production units would consist of units that are formally recognized as producers of goods or services in the country and are thus covered by formal arrangements. For enterprises, this would recognize the legal rights and protections related to the characteristics of the enterprise independent of the owner, allowing for engagement in commercial contracts and obtaining access to property, finance, markets, etc. Informal production units would conceptually consist of units with market production that are not formally recognized as producers of goods or services for the market and thus are not covered or insufficiently covered by formal arrangements in the country. Households producing for own final use would be production units that produce goods or services intended for own-final use.

186. The three different types of production units do not only have conceptual value but also analytical value. It enables the measurement of the contribution of a given sector to GDP, the frequency of the different forms of work in a given sector as well as the distribution of a given form of work within the different sectors. This represents two different perspectives. One perspective is to use the sector as an analytical unit and identifying the different forms of work and type of production taking place, within a given sector. The number of employed persons, volunteers and unpaid trainees would have relevance, for example, to calculate the productivity of the informal sector or for understanding the structure and time spent on work activities in households producing for own final use. The other perspective is the distribution of informal or formal work in the different sectors which is essential information from a policy perspective. But the same type of analysis could also be relevant to volunteer work and unpaid trainee work, for example as part of assessing the share of volunteer work taking place in respectively the formal sector, informal sector or for households producing for own final use.

Table 8. The three types of production units and the different forms of work

Type of production unit	Work relationships defined as:			
	Employment (jobs)	Unpaid trainee work	Volunteer work	Own-use production work
Formal				*
Informal				**
Households producing for own final use				

* By definition not possible

** By definition not possible if the threshold for market production for the definition of informal sector is changed to -mainly intended for the market.

187. To explicitly define three different types of production units and to recognize that different forms of work can take place in relation to them reduces the need to highlight the concept of employment in the informal sector. This would be one specific type of work in one type of production unit, but would not cover all work activities as defined by the 19th ICLS resolution I in the informal sector. In addition, the need to explicitly highlight employment in the informal sector as a component of the informal economy would be redundant if all employment in the informal sector per definition is informal (see previous discussion in chapter 5.3.4) Instead it could be stressed as part of an indicator framework that employment (informal and formal) should be disseminated by the three types of production units in order to understand the structure of informal/formal employment.

In order to meet user demands and further clarify the framework it should be considered to explicitly define three types of production units within the new framework.

8.3 Informal work

188. The introduction at the 19th ICLS of the concept of work has changed the boundaries of labour statistics. A key issue is therefore how the concept of informality should be related to the broad boundaries set by the concept of work. Should the revised resolution include all work activities (including own-use production, unpaid trainee work, volunteer work and other worker activities)? Should it continue to cover the same work activities as the current resolution and guidelines (i.e. within the SNA production boundary)? Should it cover only work activities that are deemed to be essential from a formalization perspective? Or should it cover only employed workers as defined by 19th ICLS Resolution I? The question of where the boundary is to be drawn poses a dilemma. To include all work activities would create an encompassing and comprehensive framework for statistics on informality, but would include work activities that are not relevant from the perspective of informality. On the other hand, to only include a limited set of work activities would exclude the possibility of applying the concept of informality to other work activities even though it might be of analytical value to relate them to informality.

8.4 Boundaries of informal work and informal work relationships

189. There are basically two different approaches that could be taken to create a framework that recognizes that there are work activities outside employment that are of interest from an informality perspective but at the same time acknowledges that not all types of

productive activities within all forms of work are relevant from an informality perspective. Either the conceptual framework can take the broadest possible scope but allow for subgrouping depending on the need and context of the country, thus recognizing that not all informal productive activities need or even should be measured. Or the framework can use a very restricted approach limited to employment but allow for subgroups outside employment to be added. Both approaches would yield a similar outcome but would be very different in structure.

8.4.1 Broad conceptual framework

190. A broad conceptual framework would recognize that all productive activities defined as work conceptually can be categorized in the dichotomy of informal/formal. Conceptually, informal work would include all productive activities, defined as work in the 19th ICLS resolution I that are not covered or insufficiently covered by formal arrangements. Informal work would be a comprehensive concept built on each of the different forms of work as defined in the 19th ICLS resolution I and the classification of status at work as defined by ICSaW-18. The purpose would be to create a conceptual framework that allows the measurement of those informal productive activities that are deemed relevant from the perspective of informality. The aim would not be to measure and compile data on all the different conceptual components of informal work, but rather to provide a comprehensive framework that enables the distinction between informal and formal work independently of the form of work or type of work relationship.

191. Different forms of work and different types of work relationship within a given form of work would typically be covered by a different set of formal arrangements and, in some cases, might be entirely unregulated. The combination of the form of work and the specific status at work i.e. the type of work relationship, therefore, becomes essential. Employment is the most obvious example of this where different types of regulation and formal arrangements apply depending on the status in employment. The status at work category therefore needs to be taken into account when defining how informality should be understood within a specific form of work.

192. ICSaW-18 provides categories for status at work for all forms of work. As with employment this could be useful as a starting point for creating operational definitions of informal work for the different forms of work. Different formal arrangements might be relevant for different types of work relationship among the different forms of work other than employment. Volunteer work provides an example of how the categories defined in ICSaW-18 might be of relevance for the operational definition. ICSaW-18 separates between organization-based volunteer work and direct volunteer work. While direct volunteer work typically would be unregulated, it could be argued that organization-based volunteer work under some circumstances can be covered by formal arrangements.

193. One way to structure a broad conceptual framework would be to combine the form of work with the type of work relationship in order to identify whether there are any relevant formal arrangements that could be used as a starting point for an operational definition. The combination of the form of work and the type of work relationship would be useful when it can be assumed that the formal arrangements might differ depending on the type of work relationship.

8.4.1.1 *The component of employment*

194. The relationship between informality and employment is already well established and informal employment would constitute the core of the framework. A conceptual definition of informal employment could be based on a “common statistical concept” of informality and the operational definition would use ICSE-18 as the starting point. The different issues that need to be addressed relating to the conceptual and operational definitions of informal employment and informal jobs have already been discussed in the paper.

8.4.1.2 *The components of the different forms of work other than employment*

195. The 19th ICLS resolution I defines own-use production work, unpaid trainee work, volunteer work and a residual category of other work activities as different forms of work in addition to employment. Some of the productive activities within these forms of work are within the SNA production boundary and therefore, at least conceptually, also part of the current definition of informal employment. This includes own-use production of goods, unpaid trainee work, organization-based volunteer work and direct volunteer work producing goods. It is, however, unclear to what extent countries in practice included all these activities in the measurement of employment as previously defined and hence also in the measurement of informal employment as currently defined.

196. In addition, the different forms of work also include own-use provision of services (which is included in own-use production work) and direct volunteer work providing services (which is included in volunteer work). These productive activities have not conceptually been included in the concept of employment and have thus not previously been related to informality.

197. *Own-use production work* (including the provision of services as well as the production of goods), would typically not be covered by formal arrangements and the two different types of work relationships would typically not be recognized and acknowledged by the legal administrative framework of the country by for example registration or similar. Instead these activities, especially in relation to own-use provision of services would in most cases be unregulated. There can be exceptions, however, for certain specific types of productive activities, for example in countries where it is possible to receive economic compensation for taking care of ones own children or relatives and where different formal arrangements are put in place around the activities. Another example is employers in own-use production work for example, when domestic workers are employed on a formal basis both the employee and the employer have rights and responsibilities and are protected against certain types of risks.

198. For *volunteer work* it seems useful to distinguish between the two different types of work relationships, since there might be different sets of formal arrangements depending on whether the work is organization-based or not. Direct volunteer work would in most cases be unregulated and the work relationship would typically not be recognized and acknowledged by the legal administrative framework. Organization-based volunteer work is slightly different because it is carried out for or through an organization or community that may or may not be formally recognized by the legal and administrative framework of the country. In this context, there might be situations in which the work relationship of an organization-based volunteer could be formal.

199. *Unpaid trainee work* shares a number of characteristics with paid trainee work, the main difference being that the latter receives remuneration. It could therefore be argued that the same criteria as used for employees should also be used for unpaid trainee workers, or the fact that they do not receive any remuneration might call for the identification of a different set of criteria.

200. *Other work activities*, is a residual form of work that potentially includes a diverse set of activities such as unpaid community service ordered by a court, or unpaid compulsory military service. It is not yet clear what this category includes, and it is therefore difficult at this stage to discuss how it should be related to informality except on a very general level.

8.4.2 An overview of a broad conceptual framework for informality

201. In the broad approach all work activities would be conceptually defined as being informal or formal. The operationalization of whether a given work activity or job is informal would rely on the specific formal arrangements that relate to a given form of work as defined by the 19th ICLS resolution I or, if relevant, a given type of work relationship as defined by ICSaW-18. If the work activity, or in case of employment the job, is not covered or insufficiently covered by formal arrangements then the work relationship and the work activities related to the work relationship are conceptually defined as informal. Some forms of work or types of work relationships within some forms of work, might be unregulated or do not have a relevant form of formal arrangement, in these cases the work relationship could per definition be defined as informal.

202. The intention with the conceptual framework would not be to encourage compilation of data according to each of its components, but rather to provide a framework that enables the possibility of applying the informal/formal dichotomy to those productive activities that are deemed relevant depending on national need and context.

Table 8. Structure of conceptual framework for informal work

Work activities (19 th ICLS resolution I)							
Different forms of work (19 th ICLS resolution I)	Employment	Own-use production work		Unpaid trainee work	Volunteer work	Other work activities	
Work relationships ICSaW-18	ICSE-18	Own-use provision of services	Own-use production of goods	Unpaid trainee workers	Organisation based	Direct volunteers	Other unpaid workers
Formal arrangements that can be used as a basis for the operational definition of informal/formal work relationship	National labour laws, social insurance regulations, commercial law, tax regulation	Might be some formal arrangements in some countries e.g. in relation to care work	Typically unregulated,	Might be some formal arrangements in some countries	Might be some formal arrangements in some countries	Unregulated, per definition informal?	Depends on the specific type of activity
Informal work relationships	Work relationships that are not covered or insufficiently covered by national arrangements aiming at regulating the activities or reducing the economical or personal risks associated with carrying out the work activities related to the work relationship						

8.4.3 Essential sub-categories of informal work/informal work relationships

203. An encompassing conceptual framework would not be relevant to measure in its totality in the context of informality. For example, almost all persons do carry out own-use provision of services and there would typically be little interest in measuring most of these activities from an informality perspective. The aspect of “informal” would not add much value to the already existing concept of own-use production work. Instead it would be essential to identify the sub-categories of informal work that have a high policy interest and where data should be provided regularly by countries to inform policy makers and the debate. The identification of essential sub-categories of informal work would be a pragmatic way to deal with the need to acknowledge that unpaid work relationships can (and in many cases will) be informal, but that it might not be relevant for policy purposes to compile data on all informal work relationships. Instead the focus would be on compiling data on the essential sub-categories of informal work that have a clear policy purpose. In addition, it would create the possibility to identify additional sub-categories of informal work that might have an interest for different specific analytical purposes or policy needs.

204. Informal employment would be an essential sub-category of informal work. The policy need for regular provision of data regarding informal employment is already well established, it is part of the SDG 2030 (SDG 8.3.1), it is at the core of the informal economy and strongly linked to decent work as well as to the ILO Transition from the Informal to the Formal Economy Recommendation 204, (ILO, 2015). Informal employment would need to be further disaggregated by ICSE-18 and supplemented with a set of indicators that can

provide a context to the dichotomy on informal/formal employment as well information regarding the structure of the informal employment within a given country.

205. Subsistence food stuff producers could also be recognized as an essential sub-category of informal work in countries where this is significant. Subsistence food stuff producers are defined as a sub-group of persons in own-use production work in the 19th ICLS resolution I. Persons in this group are often found in vulnerable situations and exposed to high economic risk typically without any form of protection. Subsistence food stuff production used to be part of employment as well as informal employment and constituted a significant share of informal employment in many countries. To address the situation of this group would typically require a different set of policies than addressing the more market-oriented production. This is also an argument for its separate identification.

206. Informal unpaid trainee work could also be identified as an essential sub-category of informal work. Informal paid trainees would be part of informal employment and could be separately identified using ICSE-18. The recognition and measurement of informal/formal unpaid trainees would enable the creation of an indicator that provides information on the distribution of paid/unpaid, formal/informal trainees in a country.

207. In addition to these essential sub-categories there might be other recommended categories useful for national purposes that could be of specific analytical or policy interest. Care work is such an example. Information about the volume and burden of care work, paid as well as unpaid is of high policy interest and the dichotomy of informal/formal could have relevance in this regard. For a comprehensive measurement of care work both paid and unpaid care work needs to be identified in all forms of work. The dichotomy of informal/formal could be used to understand the structure of the work. For example, by organising care work in multiple dimensions such as paid/unpaid, public/private, formal/informal. (Taylor, 2004). This is challenging from a data measurement perspective and would typically require a time use survey or a specialized survey, however, the broad conceptual framework would provide the key elements to conduct such analysis if deemed relevant.

208. There is a need to further discuss whether there are additional groups that should be identified and which of these should be defined as essential sub-categories of informal work. However, the advantage of a broad conceptual framework is that it would not pre-empt a future discussion of additional groups of interest.

8.4.4 Restricted conceptual framework

209. An alternative to the broad approach would be to restrict the conceptual framework to employment as defined by the 19th ICLS resolution I and “only” explicitly define informal employment. It would still be possible to build a conceptual definition of informal employment from a common statistical starting point.

210. Additional categories of interest, outside employment, could also be identified to complement informal employment. These could include subsistence foodstuff producers, unpaid trainees and other categories of interest from a policy perspective. The data regularly produced by countries would be similar in the restricted approach as in the broad approach. However, the main difference would be that the conceptual framework would

not provide guidance on how the different unpaid forms of work should be understood and related to the dichotomy of informal/formal. The framework could not be used for a purpose other than to compile data on informal employment and the additional categories of interest, for example in relation to care work.

211. A restricted approach would exclude work activities from the dichotomy of informal/formal, the situation would be similar to the challenge of defining the informal sector. Some production units fall outside the dichotomy of informal/formal sector and the response to this was to introduce a third sector, households producing for own final use. A production unit defined as a household is a non-formal production unit that do not fulfil the criteria of being an informal production unit. This structure could also be used for work activities that are non-formal work activities but do not fulfil the criteria of being informal employment in a restricted approach. This would imply the introduction of a third type of work which would consist of all other non-formal work activities, many of them that typically would be unregulated. Other non-formal work activities would include work activities that are of low interest to formalize, such as for example volunteer work or the provision of household services for own final use. At the same time, these activities would still be recognized as non-formal work activities and could be measured as such for different analytical and policy purposes and with different statistical sources with different regularity.

212. The introduction of a third type of work would ensure that all work activities are included in the framework and are recognized as either being formal or non-formal. However the concept of informal work activities would be used for those work activities that typically are essential for labour market statisticians, analysts and policy makers from an informality perspective.

Taking the above discussion into account there is a need to consider:

- *Which of the two approaches (broad approach or restricted approach) would be the more promising to further explore;*
- *Whether the concept of formal arrangements is useful in relation to unpaid work activities and, if so, what types of formal arrangements could be used as a starting point for an operational definition;*
- *Which essential groups (in the broad approach) or additional categories of interest (in the restricted approach) should be included in the new framework;*
- *The possibility of including a third category of non-formal work activities, and in that case where the boundary between informal work activities and non-formal work activities should be set.*

8.4.5 A dimensional approach

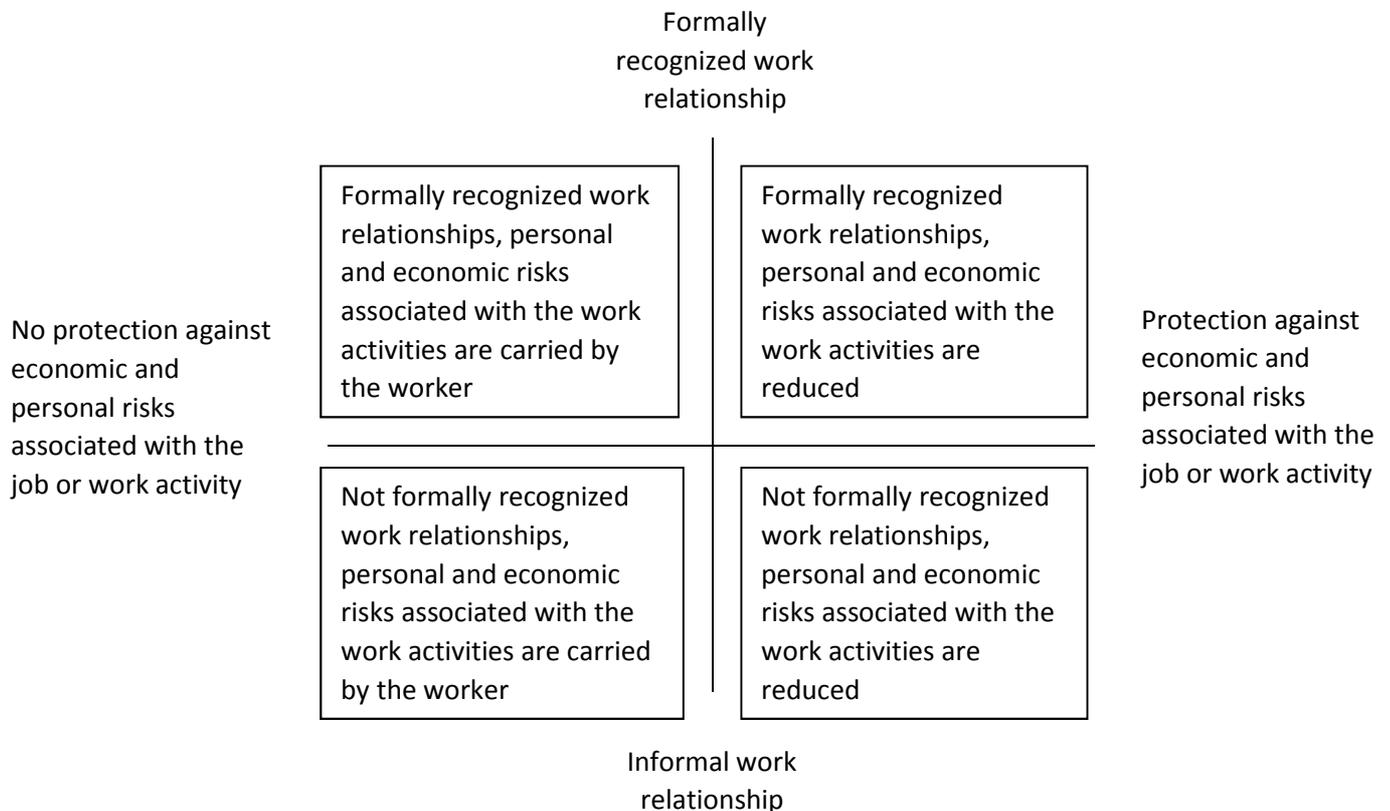
213. Independently on the boundary of the framework there would be a need to better reflect that the dichotomy of informality/formality in reality is a continuum that includes different dimensions. This is a challenge from a statistical perspective because it makes it difficult to identify a statistical boundary between informal and formal employment, and in the broader context between informal and formal work, that provides the information needed to reflect the different dimensions of informality. A way to address this could be to introduce a dimensional approach by introducing the two different dimensions of:

- whether the work relationship is in law and in practice formally recognized or not by the legal/administrative framework:

- the degree of protection against economic and personal risks associated with the work activities carried out by the worker.

214. These two different aspects do, to some extent, capture the core of informality. Having a formally recognized work relationship is typically a precondition for being subject, by law and in practice, to the full set of commercial laws, labour laws, social protection etc. that aim to reduce the personal and economic risk to which the worker is exposed. Different forms of social protection and access to employment benefits such as paid annual leave and paid sick leave reduces the economic impact of external shocks such as becoming sick, injured, unemployed or reaching old age and thereby reduces the economic risk that the worker is exposed to. Labour laws that regulates the working time and ensures the health, safety and welfare of the workers reduces the personal risk of becoming sick or injured due to the work, thus reducing the personal risk associated with the work. From a policy perspective this is an essential aspect: the aim of formalization is not only to push for formalization of the work relationship but also to ensure that protection against personal and economic risk follows from that. Different countries have different formal arrangements and different levels of protection. This will also vary within a country depending, for example, on the status in employment. Workers that do have formally recognized work relationships might nevertheless have very limited protection against economic and personal risks, while workers with an informal work relationship might have some limited protection. Based on the two dimensions it would be possible to identify four different generic groups along these dimensions as can be seen in figure 7:

Figure 7. Four generic groups based on a two dimensional structure



215. Both axes are continuums. A work relationship can be more or less formalized. Owning and operating an incorporated enterprise can be viewed as more formalized than just having an enterprise that is registered and where no obligations or benefits follow from it. Having a written contract stating the period of work, number of working hours but where the work relationship is not recognized and acknowledged by the legal administrative framework of the country can be viewed as more formalized than just having an oral agreement to work for one single day. Similarly, the degree of protection is also a continuum, a worker might be subject to the full set of labour laws, a range of different social protection schemes or only parts of it or none of it.
216. A dimensional approach could be used in different ways, it could be used as a starting point for identifying different sub-categories along the two different dimensions, or it could be used as a conceptual structure for a new framework. From a statistical perspective it seems feasible to identify a threshold that separates work relationships that are formally recognized in law as well as in practice from those that are not. This is built on a triangular connection between the worker, the economic unit for which the worker carries out the tasks and duties, and whether this work relationship is acknowledged and recognized by the legal administrative framework of the country. In the case of employment, this would look different depending on whether the worker owns and operates the economic unit or not. When the worker does own and operate the production unit, it becomes a question of whether the production unit is acknowledged by the legal administrative framework, which would be operationalized by whether the production unit is incorporated, registered and so on. If the worker do not own and operate the economic unit for which the work is performed, then it is a question of whether the work relationship between the worker and the owner of the production unit is recognized or not by the legal administrative framework, which can be operationalized by criteria such as whether the employer contributes to social insurance, access to paid leave etc.
217. It is more difficult, from a statistical point of view, to see how such a dichotomy should be created for the dimension of the degree of protection from economic and personal risks. One way this could be dealt with could be to identify relevant supporting variables that would allow assessment of the level of protection. This would include aspects of labour laws, commercial laws, social protection etc. such as: access to social protection e.g. access to job related occupational injury insurance, old-age benefits, health insurance, unemployment insurance, access to benefits such as paid annual leave, paid sick leave, paid maternity leave. Job-specific forms of social protection would be included, but voluntary forms of social protection could be of interest as well, even though they are not directly attached to a specific job. The inclusion of voluntary schemes would extend the relevance of the supporting variables to independent workers, dependent contractors, and contributing family workers as well as to some workers in forms of work other than employment. In addition, there is a need to further explore how this dimension could be captured among independent workers beyond voluntary contributions to social protection. This could include aspects such as access to capital, access to the market and access to training.
218. To include a dimensional approach might clarify the statistical meaning of informality and create a more clear separation between the two different aspects of whether the work relationship is formally recognized and the degree of protection, rights and obligations that

follow. The first aspect could be captured by an operational definition of informal work and informal work relationships while the latter aspect could be covered by introducing supporting variables. This could contribute to a move towards a framework that to a larger extent allows users to contextualize the situation of workers with respect to both informal and formal work relationships from the perspective of the nature and extent of benefits, obligations and protections that follow from this.

There is a need to consider the structure of a new framework including:

- *The possibility of improving the analytical and policy use of the statistics on informality by creating a structure that separates between the dimensions of:
 - *whether the work relationship is formally recognized; and*
 - *the degree of protection against economic and personal risks that follows from such recognition;**
- *Whether there is an alternative structure that would be better suited to balancing the need to statistically define the dichotomy between informal and formal jobs and the need to contextualize this dichotomy.*
- *to further explore what aspects of protection against economic and personal risks should be included in order to cover the second dimension. Such a discussion needs to take user needs and country experiences into account.*

9 Bibliography

European Commission, IMF, OECD, UN and World Bank. 2009. *System of National Accounts, 2008* (New York). Available at: <https://unstats.un.org/UNSD/nationalaccount/sna2008.asp>

ILO. 1982. Resolution concerning statistics of the economically active population, employment, unemployment and underemployment (Geneva, October)

ILO. 1993a. Resolution concerning statistics of employment in the informal sector, adopted by the 15th International Conference of Labour Statisticians (15th ICLS resolution)(Geneva, 19-28 January). Available at:

https://www.ilo.org/global/statistics-and-databases/standards-and-guidelines/resolutions-adopted-by-international-conferences-of-labour-statisticians/WCMS_087484/lang--en/index.htm

— . 1993b. *Statistics of employment in the informal sector*, Report III, 15th International Conference of Labour Statisticians (Geneva, 19-28 January). Available at: https://www.ilo.org/public/libdoc/ilo/1992/92B09_385_engl.pdf

— . 1993c. Resolution concerning the International Classification of Status in Employment (ICSE), adopted by the 15th International Conference of Labour Statisticians (ICSE-93) (Geneva, 19-28 January 1993). Available at:

http://www.ilo.org/global/statistics-and-databases/standards-and-guidelines/resolutions-adopted-by-international-conferences-of-labour-statisticians/WCMS_087562/lang--en/index.htm

— . 2002. Resolution concerning decent work and the informal economy, adopted by the International Labour Conference at its 90th session (Geneva, 3-20 June). Available at: https://www.ilo.org/global/topics/dw4sd/themes/informal-economy/WCMS_080105/lang--en/index.htm

— . 2003. Guidelines concerning a statistical definition of informal employment, adopted by the 17th International Conference of Labour Statisticians (17thICLS guidelines)(Geneva, 24 November-3 December). Available at:

https://www.ilo.org/global/statistics-and-databases/standards-and-guidelines/guidelines-adopted-by-international-conferences-of-labour-statisticians/WCMS_087622/lang--en/index.htm

— . 2013a. Resolution concerning statistics of work, employment and labour underutilization, adopted by the 19th International Conference of Labour Statisticians (19th ICLS Resolution I) (Geneva, 2-11 October). Available at:

https://www.ilo.org/global/statistics-and-databases/standards-and-guidelines/resolutions-adopted-by-international-conferences-of-labour-statisticians/WCMS_230304/lang--en/index.htm

— . 2013b. *Measuring informality: A statistical manual on the informal sector and employment* (International Training Centre, Turin). Available at:

https://www.ilo.org/global/publications/ilo-bookstore/order-online/books/WCMS_222979/lang--en/index.htm

— . 2015. Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204) (R204)(Geneva). Available at:

https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:R204

—. 2016. “Review of measurement practices for informal employees”, paper presented at the third meeting of the Working Group for the Revision of the International Classification of Status in Employment (ICSE-93) (Geneva, November-December 2016).

—. 2018a. Revision of the 15th ICLS resolution concerning statistics of employment in the informal sector and the 17th ICLS guidelines regarding the statistical definition of informal employment, Room document 17 (Geneva, 10-19 October) Available at:

https://www.ilo.org/stat/Publications/WCMS_636054/lang--en/index.htm

—. 2018b. Resolution concerning statistics on work relationships, adopted by the 20th International Conference of Labour Statisticians (Geneva, 10-19 October). Available at:

https://www.ilo.org/global/statistics-and-databases/meetings-and-events/international-conference-of-labour-statisticians/20/WCMS_648693/lang--en/index.htm

—. 2018c. *Women and Men in the Informal Economy: A statistical picture*, third edition (Geneva, May). Available at:

https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm

—. 2018d. Data collection guidelines for ICSE-18, Room document 14 (Geneva, 10-19 October) Available at:

https://www.ilo.org/stat/Publications/WCMS_636039/lang--en/index.htm

—. 2018e. Report III Report of Conference, 20th ICLS (Geneva, 10-19 October)

Available at:

https://www.ilo.org/global/statistics-and-databases/meetings-and-events/international-conference-of-labour-statisticians/20/WCMS_651209/lang--en/index.htm

Taylor Rebecca F. 2004. *Extending conceptual boundaries: work, voluntary work and employment*, London